



# SOMERSET ESTATES HOMEOWNERS ASSOCIATION

## What's Up #15: October 12, 2018

### Proposed 2019 Budget and Dues

This issue of What's Up is all about next year's proposed budget and corresponding dues increase effective January 1, 2019. **After a careful bottom-up budgeting process, the board believes it is in the community's best interest to propose a budget that will increase dues from \$1,300 to \$2,500 per year (\$325 to \$625 per quarter).** This represents an overall increase of annual spending from approximately \$109,000 to \$223,000 (shown below in summary form). The complete budget is available for download on the SEHOA website.

To implement this change, we will need a majority of homeowners to vote in favor of the budget in person or by proxy at the upcoming November 27th homeowner meeting at Niwot High School at 7pm.

If you are already aware of the historic underfunding that has plagued our community for decades and are comfortable with this increase, you needn't read further... just cast a vote in favor of the budget by coming to the November 27th meeting or by submitting the proxy that will arrive in the mail later this month.

For those who want more information, there are several opportunities for you to understand, ask questions and become comfortable with the proposed budget. First, review this newsletter to understand many of the underlying facts and assumptions driving this budget. Second, you are invited to attend the upcoming budget presentation at the Niwot Firehouse, October 23rd, 6:00 pm. Third, you can send questions and comments to us via email at [Info@SomersetEstates-HOA.com](mailto:Info@SomersetEstates-HOA.com). Fourth, you may use the "Anonymous Message" button at the bottom of this newsletter to send a message without identifying yourself. Fifth, you are always welcome to contact any member of the Executive Board with your questions or concerns.

	<b>2019</b>
Assessments	\$212,275
Other Income	1,050
<b>Total Income</b>	<b>\$213,325</b>
Legal and Professional Fees	\$10,000
Contingency for Resolution of Assets/Reserves	65,000
Insurance	8,270
Property Management	13,000
Other	5,945
<b>Administrative Expense</b>	<b>\$102,215</b>
Landscaping Expense - Normal	\$43,600
Landscaping Expense - Rehab	20,000
Irrigation-Related Expense	19,000
Other Maintenance/Repair Expense	4,150
<b>Total Maintenance &amp; Repairs Expense</b>	<b>\$86,750</b>
Utilities Expense	\$15,900
Seasonal Decorations	\$1,750
<b>Total Operating Expense</b>	<b>\$206,615</b>
Total Capital Expense	16,935
<b>Total Expenses</b>	<b>\$223,550</b>
<b>Net Income</b>	<b>(\$10,225)</b>

*2019 Proposed Budget (Summary)*

## 2019 Budget Approval Timeline

The board presented the draft 2019 budget to homeowners at the recent October 9th meeting. The budget was discussed in depth. The following steps remain:

**October 23** (6:00 pm at Niwot Fire Station): Board Meeting, final budget discussion and board approval

**Shortly thereafter:** Budget will be mailed to all homeowners with homeowner meeting notice and proxy

**November 27** (7:00 pm Niwot High School): Homeowner meeting to vote on budget. Will require 30% quorum and majority vote to pass

**January 1, 2019:** New dues will be in effect

# 2019 Budget: Basic Drivers

It is easy to get lost in the details of a budget discussion. Before exploring the budget in detail, consider the following overall concepts that shaped the board's approach to budgeting next year:

**High-Level Objectives:** The board believes the increased budget will serve the association's three fundamental goals: 1) Maximize the market value of our homes, 2) Enhance our quality of life, and 3) Position Somerset Estates as a premier Front Range residential subdivision.

**Major Funding Requirements:** As a start-up organization, the next several years will require resources to resolve one-time issues. These include: 1) **Establish Ownership of Key Resources...** Clarifying and securing ownership of water rights and settling title to common property; 2) **Maintain Our Infrastructure...** Historic underfunding means there is significant backlog of deferred repairs; 3) **Implement Prudent Upgrades...** In the short-run, we need to address a number of obvious deficiencies (e.g. repair patches of dead grass), followed by implementation of a thoughtful multi-year master plan (subject to community input and approval); and, 4) **Set Aside Adequate Financial Reserves...** Funding is needed to establish a reasonable reserve (which is close to zero at present) to pre-fund major infrastructure projects and prepare us for unplanned contingencies.

## Action Needed to Address Allocation of Key Resources

The May 2017 court decision established that SHOA (Somerset Homeowners Association) and SEHOA (Somerset Estates Homeowners Association / our HOA) are two separate "legal and distinct communities", but the judge left to the two communities how best to allocate key resources (water, land and money) between the two communities.

SHOA has argued that a timely merger of SHOA and SEHOA would obviate the need to address these issues. SEHOA published a plan to bring a merger vote to the communities in December 2018. Prerequisites to that vote included adoption of new declarations by both communities and election by SHOA to be subject to CCIOA (Colorado Common Interest Ownership Act). On August 14th, SEHOA successfully adopted an amended declaration. To date, however, SHOA is still working toward passage of a declaration and CCIOA approval.

Based on recent discussions between the boards, we believe we are about six months away from being able to discuss a Plan of Merger, and a merger vote will be at least a few months after that. In the meantime, SEHOA is forestalled from addressing many of the needs of our community because we do not have clear title to our common property and our future is uncertain until we obtain secure access to irrigation water. Furthermore, the present board's terms end in March 2019 and certain aspects of these open issues may be subject to statutes of limitations (running since May, 2017). For all these reasons, SEHOA believes there is a compelling need to address these key resource issues and doing so influenced the 2019 budget.

Will resolving asset allocations harm our ability to consider the possibility of merger in the future? No. Having the asset allocation process behind us will allow the two communities to fairly assess the long-term merits of merging.

## **Potential Legal Expenses**

In recent years, the legal budget for our community has run approximately \$10,000 per year. The coming year will need more funds to tackle open issues. We will keep legal expenses to a minimum, but that may still amount to a sizable increase over historical norms. A factor in our ability to control legal expenses in the coming year will be the degree to which we are able to arrive at an amicable agreement with SHOA to allocate land, money, and water.

If we come to agreement with SHOA before the end of 2018, we expect our legal expenses in 2019 to be in the normal range. If, in spite of our best efforts, we don't come to agreement, this number could be substantially higher. Our highest priorities are to secure title to the common properties and come to an agreement with SHOA on allocation of water shares. Both of these priorities may require a financial commitment to resolve. With that contingency in mind, we've budgeted an additional \$65,000 to cover this financial commitment and/or extraordinary legal fees. We hope that most or all of this money will not be needed for legal costs and will then be available to cover other expenses or added to the reserves.

## **Summary of Increased Budget Items**

Comparing the 2019 Budget to 2018 Actual expenditures on an apples-to-apples basis is challenging because 2018 is a partial year (we only formed in March) and the bulk of our services were procured by SHOA and allocated through negotiated splits. Nevertheless, the proposed budget includes a significant overall

increase and we want to highlight where the additional expenditures are budgeted.

For the year ending December 2018, we expect total expenditures will amount to \$109,000. The proposed 2019 Budget includes the following increases totaling \$114,000 over the 2018 expenditures:

Contingency for Resolution of Asset Allocation / Reserves = \$65K

Landscape repair = \$20K

Development of master plan = \$10K

Waterfall repair & electrical = \$8K

\$10M liability umbrella policy = \$4K

Reserves study = \$2K

Other misc. increases = \$5K

The proposed 2019 Budget includes total expenditures of \$223,000, which will increase annual dues from \$1,300 to \$2,500 per year (\$325 to \$625 per quarter).

We would be pleased to address questions about these items in more detail.

## Financial Reserves

Financially sound HOAs maintain significant reserves to finance larger infrastructure renovations over time, supplement operating funds when needed, and prepare for unforeseen contingencies. At present, SEHOA is a start-up with minimal reserves.

The 2018 budget calls for ending the year with approximately \$30,000. The 2019 budget includes a reserve study which will help quantify the backlog of deferred maintenance and project costs to restore and maintain our infrastructure. With the results of that study in hand, the board will then propose a plan to build a reasonable reserve over a period of years.

The optimal size of reserves and the pace of accumulation will be the subject of open discussion after the reserve study is complete. Ultimately, SEHOA's homeowners will decide how quickly we want to build reserves and complete deferred maintenance and beautification projects.

# SEHOA's Dues History

How does the current board's proposed dues increase compare to historical dues levels in our community? Here is a brief history:

1995 – increase from \$420 to \$600

1996 – increase from \$600 to \$720

2000 – increase from \$720 to \$1,000

2005 – increase from \$1,000 to \$1,300

2011 – failed increase from \$1,300 to up to \$2,400

2016 – failed declaration amendment to revise method of setting dues

Until recently, our community operated under the dysfunction covenants put in place by the developer in 1992. As a result, **our dues have remain unchanged for 14 years.**

## False Economy of Lower Dues

Should we be grateful that previous boards were constrained by lower dues? No, the chronic underfunding was a false economy. Recommended infrastructure repair and overhaul was deferred, inadequate funds were available for reserves and many elements of the common areas languished.

If our dues had risen by 5% per year since 2005, we would now be paying \$2,574. Additionally, had our 89 homes paid dues in accordance with that rate of increase, the association would have collected an additional \$650,000 over the past 14 years... funds that could have helped maintain our infrastructure and build reserves.

Unfortunately, raising our dues now to \$2,500 won't make up for the artificially low historic dues. What's done is done. But the proposed 2019 budget will start us on a new and more reasonable path.

## Factors Driving Future Dues

What about 2020 and beyond? Passage of the 2019 budget will not commit the community to future budgets one way or another. Given the knowledge we've gained during our first year as a standalone association, however, we doubt dues will go down in future years. Uncertainties remain about significant issues,

including:

**Clarifying asset ownership (Water, Land, Money)...** Under a worst case scenario, legal expenses associated with an all-out dispute could require much more time and money than the amounts reflected in the 2019 budget.

**Water Use and Infrastructure...** Long term water infrastructure modifications and securing irrigation water could be a costly process.

**Master Plan: Restoration / Beautification...** The proposed 2019 budget includes funds to develop a multi-year master plan to restore and beautify our common areas. If approved by the community, this could be a sizable budget item in future years

**Financial Reserves (Amount / Rate)...** Above and beyond the sums needed to pay for expenses, SEHOA will need to establish a plan to prudently build an appropriate reserve.

The board is committed to working through these and other issues on behalf of the community. We will keep the community informed as we gain clarity on the costs associated with resolving these and other significant issues.

## Contact SEHOA

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# Anonymous Survey

Go ahead... tell us what you really think!

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