

# SOMERSET ESTATES HOMEOWNERS ASSOCIATION

Maximizing Our Home Values, Quality of Life, and Position as a Premier Community

## Financial Planning Process

August 13, 2019

One of the most important responsibilities of the SEHOA Board is to plan for the maintenance and improvement of the common areas of our community. Many of our assets have long lives, but nonetheless will require replacement at some point in the future at significant cost.

The Board is actively reviewing the existing infrastructure and available financial resources and establishing short- and long-range planning for improvements and maintenance. The Board has focused on three distinct planning exercises; Annual Operating Plan, including the funding of reserves for future maintenance and improvements; Deferred Maintenance catch-up; and Long-range planning for maintenance and improvements of our major assets. The following discusses each of these analyses.

**Annual Operating Plan:** This is our first full year of operations as a separate HOA and therefore numerous cost assumptions were made in preparing the 2019 budget regarding the monthly expenses required to maintain our community. While these estimates are proving to be realistic, we continue to be prudent in approving expenditures and are establishing a track record of the level of expenses required to maintain our community and meet homeowners' expectations. The Board will propose a 2020 budget for the common expenses based on our actual experience this year and our recommended funding for reserves. You will receive this budget in the fourth quarter of this year along with a comprehensive analysis of our annual revenues and expenditures. This analysis will accompany the notice for the meeting to ratify the budget according to the process specified in our Declaration.

**Deferred Maintenance:** Years of underfunding of the prior joint HOA resulted in a "bare bones" approach to maintenance with only those items of greatest need being repaired and all optional items, such as flowers, the waterfall, holiday lighting and even some necessary repairs being eliminated. This has resulted in numerous items that are currently in need of repair, some urgently. The categories of these deferred maintenance items include: Irrigation system, pedestrian paths, fencing, landscaping, drainage, street monuments and pond infrastructure. Working with our Property Manager, the Board has compiled a working list of these items, completed several of the most important and begun the process of prioritizing what remains, including approximately 20 projects to be completed this year. Due to cash constraints, not everything can be done currently and it may, in fact, take several years to complete all of the items requiring attention. We expect to provide a full report to homeowners on the items completed and those still requiring repair along with the related implementation plan in the last quarter of 2019.

**Long-range planning for maintenance and improvements of our major assets:** Planning for the future is a necessary and important part of keeping our premier community vibrant and beautiful. Many of our assets, no matter how good the maintenance plan, will eventually need to be replaced in their entirety, or at least require substantial repairs. In addition, improvement projects designed to upgrade our community require a long-range plan as well as community input. These repairs/improvements are

expected to be large and expensive projects and therefore require establishing cash reserves as part of our annual budgeting process so that funds will be available when required. The Board has separated these long-range projects into five specific areas:

- Ponds and Related Irrigation Infrastructure
- Pedestrian Paths
- Fences
- Trees and Landscaping
- Street Monuments (entrance and individual street)

Certain of these assets require specific expertise to develop a long-range maintenance and replacement plan, including pond and irrigation infrastructure, fence, and landscaping and tree expertise. Our plan for these assets is to engage appropriate experts on a long-term basis in order to create consistency and related financial economy. The Board is undertaking selection of these experts to help us ascertain the current repairs needed and to establish a timeline and budget for future repairs/replacement of these assets. Other assets, such as resurfacing paths, street monument maintenance and other miscellaneous items can be managed on an “as needed” basis and will not require experts to advise the community on proper maintenance. We expect to provide a full report to homeowners upon the conclusion of this exercise sometime in the first part of 2020.

The Board understands that everyone will have different points of view and different priorities depending, in large part, on individual home locations and homeowner use of the common areas. The Board believes keeping the community informed and involved with our planning will result in a common understanding and enthusiasm for keeping our community the most desirable along the Front Range. The Board is committed to making all of this information available to homeowners and appreciates your support.

One final note. A secure long-term source of irrigation water for the common properties is foundational to our community. We are operating this year under a short-term agreement with SHOA. As was reported at the March 2019 Annual Meeting, the Board appointed a Water Committee to resolve the issues of water rights ownership as between SHOA and SEHOA and determine whether any change of use action with the Water Court is needed. We are close to having enough information from our water legal firm, Dietz & Davis, to craft a proposal for a long-term agreement with SHOA. As a good working relationship has been established with SHOA, and a fair settlement achieved on other matters, we anticipate a sensible and fair resolution on these water rights. This is just one step in eliminating or reducing SEHOA’s water rights risk as a change of use action may be advisable, which could be time-consuming and costly, and must be considered in addition to the long-range plan for maintaining our infrastructure. We will keep you informed as the plan is developed, including the costs involved.

Your Somerset Estates Executive Board

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- Paula Hemenway
- Bill Harris
- Mark Jensen
- Herb Macpherson