QUESTIONS AND ANSWERS REGARDING PROPOSED SPECIAL ASSESSMENT

What if the required 67% of homeowners approve a Special Assessment, but are split on the amount? The ballot is structured such that a vote for an amount greater than $5000 also counts as a vote for all lower amounts (other than zero). For example, if the vote is 18% for $15,000, 32% for $10,000, 25% for $7500, 15% for $5000, and 10% for $0, then the approved Special Assessment will be $7500, as 75% of votes (greater than the required 67%) were for **at least** $7500 (18% + 32% + 25%). The explicitly stated assumption is that a homeowner willing to pay $15,000 is also willing to pay $10,000, $7500 or $5000, etc.

What are the major elements and associated costs in the Long Range Plan/Reserve Study? Unlike many subdivisions, Somerset Estates includes within its borders 14 acres of common area that include mature trees, grass areas, flower beds, consistent perimeter fencing, monuments, and water features, including several ponds and a central waterfall. Walking paths surround the neighborhood and provide direct connections to the Boulder County trail system. These amenities, while adding to the openness and beauty of the neighborhood, are showing their age after 25 years. To develop the Reserve Study, over 200 common property assets were listed in detail and grouped into categories. Each asset was assigned an expected cost to replace or repair, a useful life once replaced or repaired, and remaining useful life as of 2020. A planning period of 30 years was used, so most assets will incur costs more than once over that time period. There are multiple ways to look at how the costs break down by asset, but one way is to consider the total future value of all expenditures on an asset over the 30 year period, which then includes repeated replacement or repair. The result (assuming an inflation rate of 2%) is as follows by major category. Please note that Water Rights Management is relatively low because it excludes major legal fees and other than minor water share purchases and (see more explanation below).

Asset Category	FV Replacements	% of Total
Water Rights Management	$ 35,667	1%
Water System Infrastructure (from ditch to SEHOA)	$ 277,635	7%
Water System Irrigation	$ 96,257	3%
Water Features (Ponds & Waterfall)	$ 1,177,362	32%
Fences	$ 1,308,330	35%
Retaining Walls	$ 11,253	0%
Paths/Walkways	$ 295,784	8%
Monuments (Entry & Street)	$ 253,278	7%
Trees/Vegetation	$ 263,752	7%
Total 30 Year Plan (FV - 2%)	**$ 3,719,318**	100%

Another way to look at the assets is when major elements are expected to need replacement or repair. At the end of the Town Hall presentation on the SEHOA website are a series of photographs of assets needing near-term, mid-term, and long-term work, including the expected capital cost, useful life and remaining useful life. We encourage you to review the presentation for more information.

Homeowners should be aware that the near-term capital costs over the next three years (2021 to 2023) are expected to total approximately $450,000. The plan assumes that some of this will be paid from the annual dues, but as this is equivalent to a Special Assessment of $5000/Lot, an order-of-magnitude analysis is that $5000 keeps us out of debt, but not much more.

Prior communications indicated that the Board was planning to propose a Special Assessment of $5000. Why are we voting on higher amounts? The purpose of the Town Hall meeting on October 27 and subsequent What's Up communications was to communicate in detail our financial situation and solicit input from homeowners. As presented at the Town Hall and included in this packet, the Board considered a range of scenarios that result in "Fair" to "Ideal" funding of reserves. A Special Assessment of $5000 is the lowest amount to avoid debt or decay of assets in the immediate future. During and following the Town Hall, we received input from about 20 homeowners. About two-thirds expressed that they thought that the community would be better served by a higher than minimum Special Assessment to get to a better financial position and reduce the risk of future Special Assessments. The multiple choice approach to setting the amount of the Special Assessment is designed to give all homeowners the opportunity to review the Long Range Plan information and vote on the amount of assessment they support. **The Board unanimously endorses $10,000 or more** as the amount that is in the community's best interest as an investment that will pay for itself in improved home values in terms of community appearance and financial stability.

Why didn't the Board conduct a survey before deciding on the proposed amounts? The Board is committed to providing homeowners with sufficient information to form an opinion on the implications of adopting a Special Assessment. Developing the Reserve Study using defensible inputs on expected asset costs and timing was a huge effort, and any survey prior to completing the study would have limited value. We received feedback from about 30% of homeowners, including the Board, prior to the adoption of the enclosed ballot, a response rate as high as a typical survey. Using a multiple choice approach to setting the amount of the Special Assessment is in a sense a binding survey that we expect will result in a high response and good information on where the entire community stands on its willingness to fund our infrastructure and common areas.

Can I pay the Special Assessment over time? Based on homeowner feedback asking for payments over time, the proposal is for any approved Special Assessment to be paid in increments of $2500 every six months, starting in April 2021. A $5000 assessment would be due in two parts on April 1, 2021 and October 1, 2021; a $7500 assessment would be due in three parts on April 1, 2021, October 1, 2021, and April 1, 2022; a $10,000 assessment would be due in four parts on April 1, 2021, October 1, 2021, April 1, 2022, and October 1, 2022; and a $15,000 assessment would add two additional $2500 payments on April 1, 2023 and October 1, 2023. Homeowners that are able to pay the full amount on April 1, 2021 will be encouraged to do so.

What if I sell my house before April 1, 2021 or before I've paid the full amount? Standard real estate contracts in Colorado include a paragraph on whether the buyer or seller is responsible for any unpaid Special Assessments, so this must be negotiated as part of escrow. SEHOA will inform the title company of the outstanding assessment and require full payment as part of escrow, unless the buyer executes an agreement with SEHOA to assume liability. As of November 17, 2020, the Executive Board has adopted a proposed Special Assessment that requires homeowner ratification on January 12, 2021. Please consult with your real estate professional or legal representative on disclosure requirements.

Do our rules permit homeowners to pay varying amounts based on various criteria? No, the SEHOA Declaration requires that common expense liability be assessed according to allocated interest, which is defined as 1/89 (the number of Lots). While a number of other factors might seem fair (tenure, value of home, lot size, etc.), the basic principle is that the allocation of votes and assessments must be the same such that one group of owners isn't voting for an assessment that is higher or lower for another group of owners.

Since underfunding of reserves has been the situation for over 25 years, isn't it unfair that longer tenured residents got a 'free ride' by paying lower dues during those years? The HOA's poor financial condition has been well understood and widely known over the years. There were several failed attempts to correct it. That fact affected home values over time (as a whole, our home values have not kept up with neighboring communities). According to Bryan Farley of Association Reserves, a nationwide HOA reserve study and capital planning company, "People mistakenly think that keeping dues low saves them money. Over time, underfunding an HOA doesn't save money. The fact is, you either pay to maintain your infrastructure and build suitable reserves or you pay in the form of depreciation and lower resale prices." With this in mind, the longer term SEHOA residents didn't get a free benefit by underpaying. Rather, they experienced devaluation (or slower appreciation) as the common elements deteriorated without being offset by building sufficient HOA reserves. Looking forward, all current owners will benefit from having a properly funded HOA. Although difficult to quantify, all our homes become more valuable and more marketable once a funded plan is in place.

How are water rights handled in the Long Range Plan? SEHOA is fortunate to have ditch water available as it avoids the cost of using treated water for irrigation and ponds. However, we face several external factors related to water rights including: 1) we don't yet have a final settlement with Somerset Homeowners Association (SHOA) on division of the water rights owned by what was considered to be a joint HOA; 2) we don't own enough ditch shares to meet all our needs and rely on leased water, which may not always be available in case of drought or increased demand along the Front Range; and 3) the Water Commissioner might take action against uphill delivery and/or pond evaporative loss. The Long Range Plan assumes that we come to an agreement with SHOA without litigation. It also includes $100,000 in minimum reserves for "pop-up" opportunities to purchase ditch shares, which rarely come on the market. It does not include the potential purchase of C-BT units (which are more flexible in use but could cost upwards of $1,000,000 to meet our needs) or the cost of a Water Court action (unknown, but at least $200,000) as these costs are unpredictable and may never be needed. If needed, the Board will need to consider a Special Assessment related to water rights, a loan, or drastic water use reduction measures.

Does the Long Range Plan assume too low a rate of inflation such that future annual dues may need to be significantly higher to keep up with inflation? In that case, is it better to ask for more up front and not rely so much on annual dues? The Reserve Study model allows manipulation of all variables, including inflation rate, annual dues increases, etc. To demonstrate the impact of various levels of Special Assessment from $5000 to $15,000, the inflation and dues increase variables were held constant at 2% and 3%, respectively. If inflation increases in the future, dues may need to increase faster than 3% to avoid slipping back into lower funding of reserves. There is no doubt that a higher Special Assessment now will reduce the pressure on future annual dues increases, so this is something homeowners should take into account when deciding how to vote and is part of the reason that the Board supports a Special Assessment of $10,000 or more.

Should we consider alternative landscaping, such as xeriscaping, to reduce our water demand? Future Boards can certainly consider alternative landscaping. An initial review in 2018 indicated that the cost to convert grass areas to attractive low-water use alternatives is significant, so while worth considering, the possibility of future landscape changes doesn't obviate the need for a Special Assessment.

Did the Board consider removing assets rather than planning for their replacement? The Board had extensive discussion about the assumptions behind the Long Range Plan and associated financial model, including a prioritization exercise for each set of assets. Removing an asset implies replacing it with something else, which also has an upfront and on-going cost. Such decisions should be made as part of a comprehensive master plan with community input and are not typically part of an HOA Reserve Study. As such, this plan addresses what we need to support the current common property assets with no major changes, based on the replacement/repair cost for each asset and its useful life and remaining useful life. That said, this is a planning tool and not a substitute for on-going Board fiduciary responsibility. Future capital expenditures will still go through the normal bid and approval process, and future Boards may elect to make modifications in assets. Homeowners should be aware that significant and unavoidable capital costs are expected in the near-term and those will not change even if we later decide to make changes to the look and feel of the neighborhood; for example, we will be obligated by our anticipated agreement with SHOA to a major repair of Pond 1 (located in SHOA and the entry point for ditch water) and a new transfer line from Pond 1 to Pond 2.

Alternatively, can we consider not just replacing, but enhancing our infrastructure to increase our home values? Yes, but such considerations were outside the scope of this planning exercise. Any upgrading effort will take volunteers to consider alternatives, work with professional landscape architects, water engineers, etc. to develop a master plan, and communicate with homeowners. Even like-to-like replacement projects of any scope take considerable project management effort. Homeowners willing to commit their time to considering alternatives should communicate as such to the Board.

Are there changes we can make to reduce our on-going future costs? The Board looks at on-going (or operating) costs each year as part of the budget process. Seeking competitive bids is part of that process, but our operating experience as a stand-alone HOA since 2018 amply demonstrates we shouldn't expect significant routine cost reductions, and there is not nearly enough discretionary spending in our annual budget to accommodate upcoming capital costs. The Board's intent since formation in 2018 has been to increase on-going maintenance and improvements (flowers, irrigation management, repairs, etc.) in keeping with our goal of making Somerset Estates a premier neighborhood. Future Boards may consider somewhat higher or lower annual budgets, which may result in higher or lower annual dues. The financial model includes that a portion of the annual dues are available for capital expenses, but it's clear that this must be supplemented by a Special Assessment (or loans) to meet near-term capital needs.

Does the capital assets list covered by the Special Assessment include the roads? No, this is a Boulder County unfulfilled responsibility. SEHOA does not own the roads, nor is it allowed to repair them without special permission from the County.