

## **Special Assessment Ballot Information**

**November 20, 2020**

Dear Somerset Estates Homeowner,

At the Executive Board meeting on November 17, 2020, the Board unanimously passed a resolution to adopt a proposed Special Assessment for the purpose of funding reserves and defraying in part the cost of reconstruction, repair or replacement of Improvements upon the Common Areas, as allowed by Section 5.4 of the Consolidated, Amended and Restated Declaration for Somerset Estates. Votes cast using the enclosed ballot will determine whether a Special Assessment is ratified and, if so, how much. Please review the contents of this mailing to decide how to cast your vote.

### **Background**

The SEHOA Board recently completed an exhaustive bottom-up financial review, developed a Reserve Study, and projected future funding needs to support the community's current assets<sup>1</sup>.

The resulting findings were presented in detail at a Town Hall Meeting on October 27, 2020. The full PowerPoint presentation was made available electronically via newsletter and posted online<sup>2</sup>. We believe this information is sufficient to permit homeowners to make an informed decision about the need for a Special Assessment.

The financial condition of an HOA is reflected by its "Percent Funded", a value that represents the size of its reserves as a percentage of its "Ideal" reserve. To fully fund the calculated "Ideal Reserve" for SEHOA, a Special Assessment of \$15,000 per Lot is needed (\$1,335,000 total). SEHOA's Reserves are currently at 4% of Ideal, a Percent Funded rating of "Poor".

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<sup>1</sup> The 2020 Long Range Plan projections are based on the following assumptions: 1) Each asset is replaced at the end of its Useful Life, 2) Annual dues increase at a rate of 1% above annual growth in expenses, 3) Current assets are maintained; i.e., new assets are not added and existing assets are not retired, but future Boards will have the discretion to make changes, 4) No reserve is established to acquire additional water rights other than \$100,000 for pop-up opportunities to purchase ditch shares, nor for legal costs associated with any future Water Court action on use of water rights, 5) No reserve is established to fund potential litigation against SHOA to split historic water rights.

<sup>2</sup> Visit the SEHOA website at [www.SomersetEstates-HOA.com](http://www.SomersetEstates-HOA.com) and navigate to the Library → File Downloads tab to see the entire presentation.

We do not have sufficient reserves for near-term necessary capital projects, which are estimated to total approximately \$450,000 (or \$5000/Lot) over the next three years. While some of this can be paid from annual dues, our projections show that we will be forced to borrow money to meet our needs if the community fails to approve a Special Assessment. Borrowing would incur substantial interest expenses. Even if we could borrow our way past the next few years, continuing to operate with very low reserves means the risk of future Special Assessments is high. If debt is unavailable when needed, we would be forced to let our neighborhood decay as assets fail. We believe our interests will be better served by adopting and funding a prudent Long Range Plan. This will increase our home values and decrease the risk of future Special Assessments.

Raising money from Members through a Special Assessment will reduce our shortfall. If we raise sufficient money to achieve 30% Funded, SEHOA would be deemed to be a “Fair” risk. If we achieve 70% Funded, SEHOA would be deemed to be a “Good” risk. If our reserves equal our calculated “Ideal Reserve”, SEHOA would be deemed to be fully funded at 100% Funded.

### **Special Assessment: A Multiple Choice**

The Board is confident in its analysis yet recognizes that going from our current status of 4% funded to 100% funded in one step may not garner the required 67% affirmative vote among Members. The Board therefore approved a multiple-choice assessment that provides Members an opportunity to cast votes for one of five levels of Special Assessment (see ballot for details):

**IDEAL:** \$15,000, payable in six parts over 30 months

**GOOD:** \$10,000, payable in four parts over 18 months

**FAIR PLUS:** \$7,500, payable in three parts over 12 months

**FAIR:** \$5,000, payable in two parts over six months

**ZERO:** No Special Assessment

The illustrations that follow were extracted from the Town Hall presentation and depict the projected outcome of each level<sup>3</sup> over time. **Having studied our finances carefully, the Board recommends approval of a Special Assessment of \$10,000 or more (“GOOD” or “IDEAL”).**

Please cast your vote for the highest amount you are willing to support. The highest amount approved by 67% of Members, assuming a quorum of 30% participate, will be enacted. A vote for any level above “Fair” will also be counted as a vote for all lower levels.

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<sup>3</sup> The illustrations assume all homeowners voluntarily pay the full assessment up front. To the extent homeowners make payments in accordance with the schedule shown, there would be a measurable delay achieving the projected Funded Percent, but the long-term outcome would be approximately the same after all payments have been made.

## **Additional Information**

This mailing includes: 1) Answers to questions asked by Members at the Town Hall meeting on October 27, 2020, as well as in response to related articles in What's Up #50 and #51 dated October 30, 2020 and November 7, 2021, respectively, and at the November 17 Board meeting, 2) Special Assessment Ballot, 3) Ballot instructions, 4) Secret Ballot envelope, and 5) Outer return envelope.

In addition to the information in this packet, you may review the detailed Town Hall Presentation (69 annotated slides) by visiting [somersestates-hoa.com/file-downloads](http://somersestates-hoa.com/file-downloads) and downloading the "Town Hall Presentation, October 27, 2020".

## **Accommodating COVID**

Rather than asking for a single lump-sum payment, the proposed Special Assessment incorporates an extended payment schedule of up to 30 months. This reflects the Board's concern that some homeowners may be experiencing COVID-related economic hardship.

Our Declaration calls for a meeting of the Members to consider ratification of a Special Assessment. However, because of COVID, the Board chose to take the action by written ballot as allowed by CRS 7-127-109: "Unless otherwise provided by the bylaws, any action that may be taken at any annual, regular, or special meeting of members may be taken without a meeting if the nonprofit corporation delivers a written ballot to every member entitled to vote on the matter." Approval by written ballot is valid only when the number of votes cast by ballot equals or exceeds the quorum required to be present a meeting authorizing the action and the number of approvals equals or exceeds the number of votes that would be required to approve the matter at a meeting. For this matter, the specifics are as follows:

- a) To meet the 30% quorum requirement, 27 responses must be received;
- b) Sixty-seven percent (67%) of responses must be FOR a Special Assessment to be ratified;
- c) The highest level of Special Assessment approved by 67% of the Members will be enacted;
- d) A ballot must be received by SEHOA via U.S. mail or hand delivery to a Board member or to Allan Orendorff, Property Manager, by 5 PM on January 12, 2021 to be counted;
- e) Once submitted, the written ballot may not be revoked.

Please note that only Members in Good Standing are entitled to vote on this matter, which is defined in the Declaration as "no more than thirty (30) days late in the payment of any Assessments, and who has none of his, her or its membership privileges suspended".

## **How to Vote**

1. **Mark your ballot.** Co-owners of a Lot must agree on how to vote.
2. **Seal the ballot in the “Secret Ballot” envelope and place that envelope into the outer return envelope.** Do not remove the return address label.
3. **Place the return envelope into the mail no later than January 5, 2021.** Postage is already attached. The secret ballot envelopes will be separated from the return envelopes prior to counting. You may also hand deliver your ballot to Allan Orendorff, Property Manager, or any Board member.

## **Conclusion**

Thanks to the broad support of our community, we’ve come a long way since our formation in March 2018. Our progress to date has been the result of an astonishingly large amount of volunteer work contributed by our highly talented and qualified neighbors. The Long Range Plan and Reserve Study are products of that effort and represent a blue print for a stable and secure financial foundation upon which we can build a secure future. We believe successful funding of this plan will improve our home values and help reestablish Somerset Estates as the Premier Front Range community it deserves to be.

### **Your Somerset Estates Homeowners Association Executive Board**

Marc Arnold, President

Paula Hemenway, Secretary

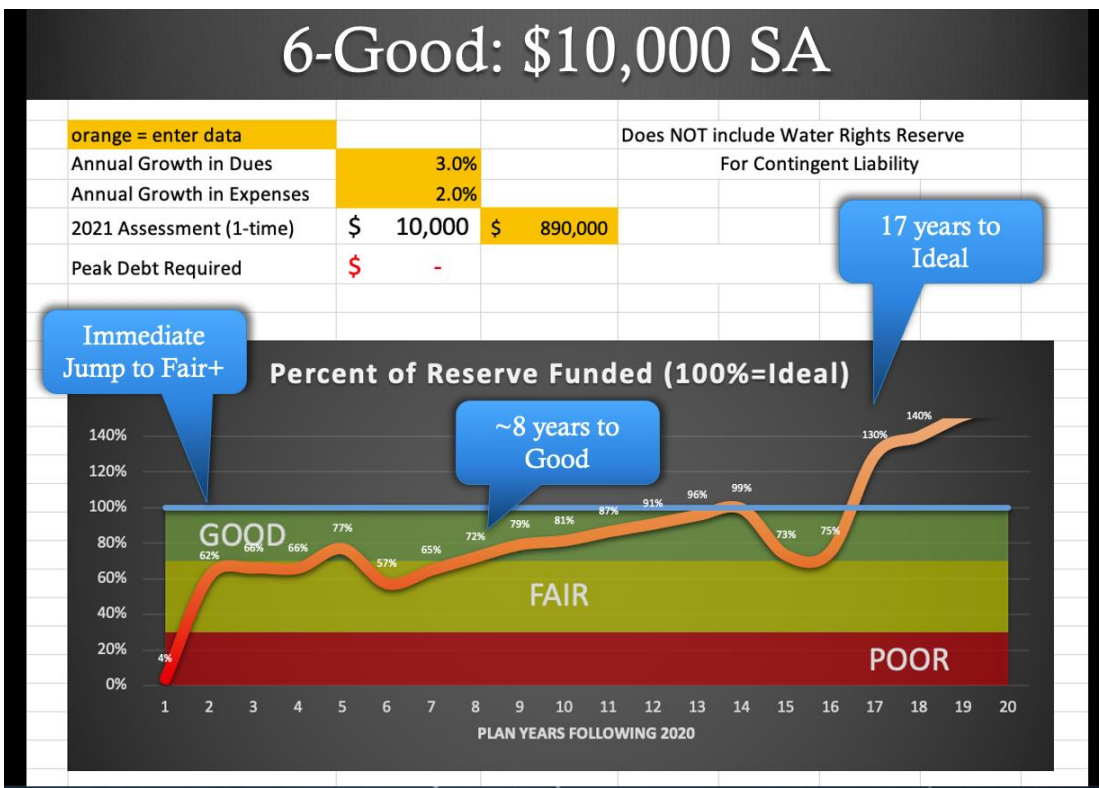
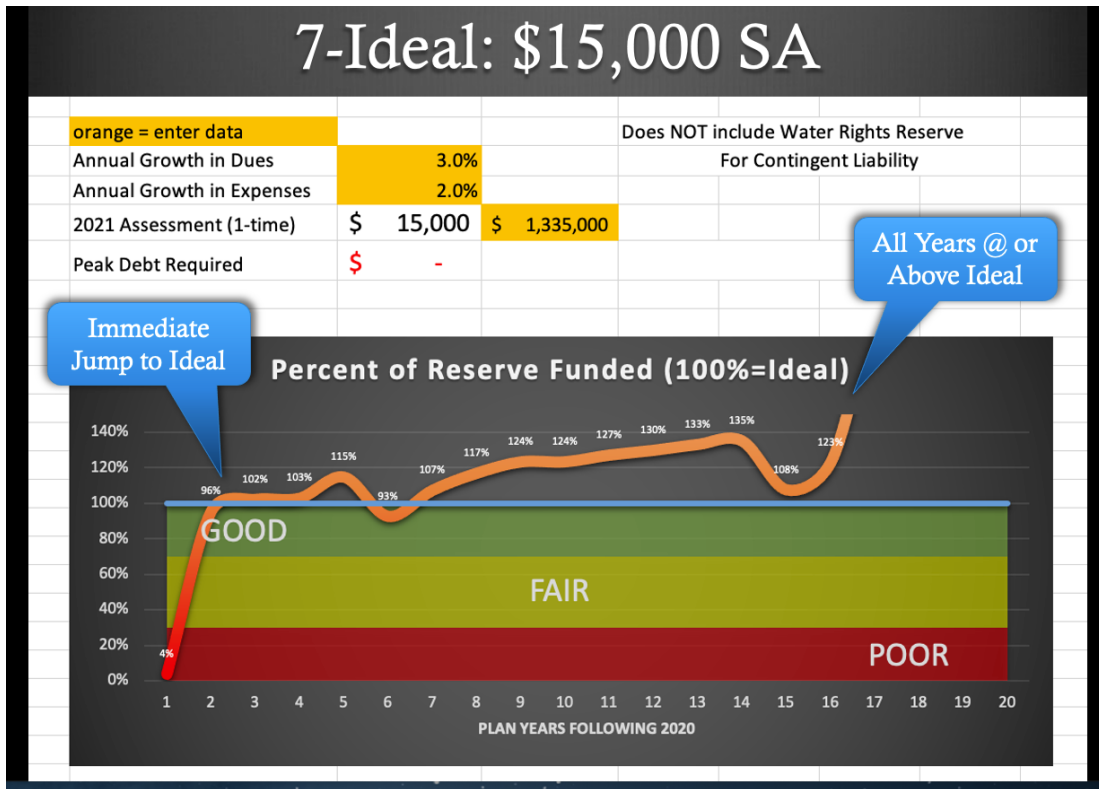
Mark Jensen, Director

Herb McPherson, Treasurer

Mike Sims, Vice President

## Illustrations of the Four Special Assessment Options

(Extracted from the October 27<sup>th</sup>, SEHOA 2020 Town Hall Meeting)



## 5-Fair Plus: \$7,500 SA

orange = enter data

Annual Growth in Dues 3.0%

Annual Growth in Expenses 2.0%

2021 Assessment (1-time) \$ 7,500 \$ 667,500

Peak Debt Required \$ -

Does NOT include Water Rights Reserve  
For Contingent Liability

17 Years to Ideal

Immediate  
Jump to Fair

Percent of Reserve Funded (100%=Ideal)

12 Years to Good



## 4-Fair: \$5,000 SA

orange = enter data

Annual Growth in Dues 3.0%

Annual Growth in Expenses 2.0%

2021 Assessment (1-time) \$ 5,000 \$ 445,000

Peak Debt Required \$ -

Does NOT include Water Rights Reserve  
For Contingent Liability

18 Years to Good

Immediate  
Jump to Poor+

Percent of Reserve Funded (100%=Ideal)

~9 Years to Fair

