

TO: Board of Directors, Innerarity Island Association, Inc.

C: Cheryl Kelley

FROM: Mike Floyd

DATE: July 8, 2020 **Revised July 10, 2020**

RE: Innerarity Island MSBU Facts and Estimated Numbers

Several of us (current and former HOA Board members, and others) have been working to develop a summary of accurate facts and the best-available estimated numbers for our MSBU. ***All the numbers continue to be estimates, of course.*** Nevertheless, our confidence in our numbers gets higher and higher every day that we get closer to completion of the sewer/water project without major delays or other disruptions.

We are working on a much-more-detailed letter presenting our findings, to be sent to all Association members (with copies to County Commissioners). We expect to present that to the HOA Board for approval at our next meeting in late July 2020. Here is a summary of some important points:

Assuming that there are no unanticipated delays in completing the construction, we expect County officials to provide detailed, actual allocated amounts of MSBU costs for each lot as of year-end 2020 and make those available to each property owner at the December 7, 2020 Annual Meeting of our HOA. Each property owner should receive an official notice of the MSBU payment amount (and other taxes) from Escambia County in August 2021, and the actual tax bill in November 2021.

County officials confirmed to us in the past week that construction is approximately 80% complete. They also confirmed to us that their estimates of construction costs (which include a 10% contingency amount that we still hope will not be spent) remain unchanged from December 2019. Therefore, the dollar amounts below are prepared on the same basis as those in the December 2019 HOA Annual Meeting minutes available via a link at <https://liveinnerarityisland.org/hoa-meeting-minutes>.

The one discrepancy I have found is in the prepayment amounts reported at the December 7, 2019 HOA Annual Meeting. Those seem to indicate a prepayment penalty of approximately 13%, when compared with the annual payments shown below discounted to present value at 4% per year. I have asked more than once over the past several weeks for an explanation of this discrepancy, and I delayed posting this memo on our HOA website in the hope of resolving it yesterday. However, I learned this morning that the explanation and resolution from the County will not be available until next week at the earliest, because Staff time and efforts are entirely consumed by budget matters at present.

I'm hoping that the error, if any, is in the estimated prepayment amounts, not in the estimated annual and monthly payments I am reporting in this memo; that would be good news for those planning to prepay and have no effect on anyone else. Of course, though, we cannot be certain of that at present. I'm also hoping that the benefits of making this information promptly available are more important than concerns over this 13% additional uncertainty. I hope to have the explanation in the next week or so, and I'll be glad to discuss this arcane issue further with anyone who wants to know more.

Our best current estimates of payments for a **15 year MSBU at 4% interest per year** are as follows:

- \$91 per month (\$1,088 per year) for each developed lot
- \$48 per month (\$574 per year) for each undeveloped lot
- \$102 per month (\$1,217 per year) for each lot with a septic tank
- \$60 per month (\$713 per year) for each lot in Russell Bayou.

Lot owners who arrange installation of their own grinder pump, and lots with a septic tank whose owners choose not to connect to the sewer system at this time, will pay the “undeveloped lot” amount. We caution the owners with septic tanks that connecting to the sewer may be considerably more expensive after the MSBU-funded construction is complete, and our HOA has no control over those costs or when government might require everyone to connect to the sewer.

We are hopeful that we will get a **20-year payment term** for our MSBU, which we estimate (again assuming a **4% annual interest rate**) would lower the amounts above to:

- \$74 per month (\$890 per year) for each developed lot
- \$39 per month (\$470 per year) for each undeveloped lot
- \$83 per month (\$996 per year) for each lot with a septic tank
- \$49 per month (\$584 per year) for each lot in Russell Bayou.

We are hopeful that the County will also grant the lower interest rate the HOA Board has requested, and that the contingency fund built into the calculations above will not be spent. Each of those factors would lower these numbers further, though neither is yet confirmed.

The estimated numbers above assume that sufficient surplus property will be sold by mid-July 2021 to pay the remaining balance of the settlement payment made to the Dennison heirs. That may or may not be a realistic assumption. In the hypothetical worst case scenario where no additional surplus properties were sold and we may be required to pay the entire interfund loan balance (reported at the May 7, 2020 BOCC Regular Meeting to be approximately \$539,000) via the MSBU beginning in 2021, we would expect the amounts above to increase by \$8 per month/\$97 per year for a 15-year, 4% MSBU; or \$7 per month/\$80 per year for a 20-year, 4% MSBU. (These estimates allocate the adjustment equally to each of the approximately 499 lots in the MSBU.)

My own understanding is that, via the MSBU, we will be paying all the costs for the new sewer system. In addition, we will repaying Escambia County for all the costs it incurred to acquire the County-property on the Island, via the MSBU or sales of property the County acquired as receiver of the old sewer system that we are paying to replace. It therefore is obvious to me that Island residents and owners who are making these MSBU payments are equitably entitled, *collectively*, to get any and all benefits from all of these County-owned lots on the Island. I’m not sure that this is as obvious to all the Commissioners and others as it is to me, but I hope we can make progress on this point.

The estimated numbers above consist primarily of construction costs, over which we have no control. The estimated numbers above also assume that all the property previously designated for conservation at the December 4, 2017 HOA annual meeting will be placed in conservation and not sold.

Many of us feel strongly that the conservation of Seascape and the other areas designated for greenspace will be immensely beneficial to everyone's long-term property values and quality of life. We consider the net cost to conserve this greenspace to be an incredible bargain for everyone who lives or owns property on the Island. Especially after adjusting for the costs of required infrastructure. Especially also when compared with the immense benefits – in both property values and quality of life – that everyone in our community will gain from having this property as greenspace. We still have ample time and opportunity to move forward to formalize the HOA's December 4, 2017 conservation decision; several of us are working hard toward that objective. If we squander this opportunity to conserve this greenspace, we fear that our unique Island may become just another crowded, fully-developed subdivision, with no wildlife habitat and therefore no foxes, deer, raccoons, etc.