

VCA 2023 Budget Script

Slide 1:

It is important for BOD and homeowners to understand how and where assessments are spent. The slides that follow will highlight the process, terminology, and address four key areas of the 2023 budget.

1. 2024 assessment amount
2. Operating deficit
3. Reserve Fund Contribution
4. Reserve Fund Projects

Slide 2:

First, want to take a few minutes to define some terms that are commonly used in the budgeting process. Most terms used are common business jargon, others are unique to the HOA budgeting process.

As with most budgets in the business world, you have an Operating Budget that spans a one-year period. Income is not derived from the sale of goods and services, but primarily from collecting assessments from residential and commercial members. The VCA has 6629 residential members and 63 commercial members. Operating Expenses are not raw materials, but utilities, landscaping, etc.

If you spend more that you take in any given year, you will have an Operating Deficit. If you do not spend all that was in your Operating Budget, you will finish the year with a surplus. Unlike some corporate budgets where if you do not spend the budgeted dollars allocated in the year allotted, you lose the funds, HOA budgets roll over any unspent money to be spent in the future. The VCA has been operating several years with an Operating Surplus and will explain why later in this presentation.

Slide 3:

You will hear the word "Reserve" used frequently when discussing HOA budgets. The easiest way to understand its use is to think of the word "Reserve" as the word capital used in other types of business budgets. The word "Component" is used to refer to a capital asset. There are specific criteria that must be met before designating an asset as a Reserve Component.

HOAs transfer or "contribute" a portion of the income received into the Reserve Fund. The VCA sets a monthly Reserve Contribution so that money is available to replenish/replace Reserve Components. The dollar amount designated for Reserve Component projects in a year is referred to as the Reserve Budget. A Reserve Study is performed periodically to provide a recommended guideline for when Components need to be replenished or replaced over a 30-year time period. The strength of a Reserve

Fund is estimated by the percent of Reserve Funds available to fully Fund all Reserve Component projects.

AZ has no laws that require Reserve Funds be a minimum percent funded. It is considered a “best practice” among the HOA industry to maintain a level above 70% funding.

A Reserve Budget is established each year. It earmarks the amount of money to be spent to complete specific Reserve Component projects as specified in the Reserve Study. The Architecture & Landscape Review Committee (ALRC) will propose certain Reserve Component projects be accelerated or delayed depending on the condition of the Component. The ALRC works with the General Manager to consult experts (e.g., park equipment consultant) if there is any question regarding the life of a Reserve Component. Remember that the Reserve Study is an estimate and is to be used as a guideline.

Slide 4:

You all are aware we all are experiencing rising costs due to inflation. The VCA too is seeing higher cost for supplies, energy, and services. The VCA needs to take an increase in assessments to cover these rising costs. Specifically, how much of an increase needs to be reviewed against current and future obligations.

Slide 5:

The VCA needs to make sure we have enough money in the Reserve Fund to cover Reserve Component projects, ideally without having to request a special assessment.

The VCA Reserve Fund is currently at 64.3% funding. We have about \$3.1MM in the fund and we need \$4.8MM to fully fund all identified Reserve Component projects in the Reserve Study. Funding at this level means there is a medium risk of having a special assessment. This budget is targeting above 70% funding in 2023, reducing the risk for a special assessment to low, with a goal to increase the percent funding over the next few years.

Slide 6:

This budget:

1. Will continue to invest in our community. It will fund Reserve Component projects per the Reserve Study or sooner, if warranted. These investments will help keep Rancho Vistoso an attractive and highly desirable place to live.
2. Will increase quarterly assessment from \$80/qtr to \$87/qtr. This is an 8.75% increase compared to the 20% maximum allowed per AZ statute.

Per A.R.S. 33-1803, a HOA cannot increase the annual assessment by more than 20%. The VCA's Covenants, Conditions, and Restrictions (CC&Rs) say a 5% maximum yearly increase is

allowed. Take 5% compounded annually over 34 years would put the Maximum Annual Assessment at ~\$800/year. That would be roughly \$200/qtr vs. the 2022 level of \$80/qtr. Due to the statute, the VCA could take up to \$16/qtr. This proposed budget can meet the stated objectives by only taking a \$7/qtr increase.

3. Will increase Reserve Fund Strength to just over 71%, reducing the VCAs risk of needing to take a special assessment to low.

Let me briefly run you thru the numbers in both the operating and reserve budgets so that you can see how we arrived at these recommendations.

Slide 7:

Let us look at the Operating Budget for 2023. Income is estimated at \$2.345MM. Largest contributing income source is assessments received from 6629 residents and 63 commercial members.

Expenses (admin, utilities, landscaping, and common area maintenance) are estimated at \$2.624MM. These expenses are based on input from the General Manager and Committees. They are the people closest to knowing what needs to get done in 2023. There was a BOD Workshop held on September 15, that was open to the public, where Committee Chairs justified their budget requests to the BOD.

If you are wondering how we can propose a budget where the VCA spends \$278,953 more on expenses than income it takes in, it is because 2023 will have an Operating Surplus that will carry over to spend in 2024.

Slide 8:

Let us estimate what the Operating Surplus for 2023 will be.

There is \$1.072MM Operating Balance month end September 2022. Estimate the remaining expenses for the year (operating and Reserve Contributions) and subtracted it from the Operating Balance to get an Operating Surplus of ~\$297,000.

Why has the VCA not been able to spend all the money allocated in the past few years? There are 2 primary factors.

1. Inadequate Staffing & Processes - Not having adequate staff required to responsibility source the work needed. We also needed to further define procurement policy. We now have a good solid team and practices in place.
2. Covid - VCA suppliers had staffing and supply issues. VCA Staff would not get response to requests for proposals. For example, the lead-time on park furniture more than doubled.

The VCA is much better positioned to get both operating and reserve projects completed in 2023.

Slide 9:

Now let us look at the strength of the VCA's Reserve Fund. This budget is proposing an annual Reserve Contribution of \$950,000/year or \$79,167/month. That is an increase of \$250,000 more dollars in 2023 than in 2022. This additional contribution will increase the Reserve Fund to 71.11% funded. A Reserve Fund with greater than 70% funding is considered a "strong" financial position, and therefore, has a low risk of requiring a special assessment.

It is desirable for the VCA to be at least at 70% funded and a goal to increase it further over the next few years.

Slide 10:

Over \$1MM is slated to be spent on the following 6 Reserve Projects in 2023 per this budget.

Project	Amount	
Irrigation Systems	\$393,000	The area in most need is along Innovation Park Dr. , it is over 30 years old
Drainage Mitigation	\$300,000	TOV has brought to our attention some areas that need attention that were not previously identified as VCA responsibility.
Monument Refurbish	\$261,500	The 4 monuments at RVB & Tangerine and RVB & Oracle are the gateway to our community. First impressions matter. The plan is to remove grass and convert to a desert scape design resulting in water and maintenance savings of over \$100,000/year in perpetuity. Will also refresh other neighborhood monuments in non-gated communities as needed.
Asphalt Seal Coating	\$32,800	Parking lots in Big Wash, Sunset, Woodshade, and Hohokam parks.
Play Structure Replacement	\$15,500	Replace a shade sale in Big Wash Park
Painting	\$11,900	Common area walls around Discovery & Eagles Summit neighborhoods.

Slide 11:

Over \$1MM is slated to be spent on 2 major Reserve Projects in 2024.

Project	Amount	
Granite Replacement	\$666,400	This is the decorative rock that you see along the roadways and common areas. It looks better than dirt and keeps the dust in check. There are 8 different areas that need granite rock to be topped off. The biggest project is the common area along Innovation Park Drive. Granite replacement cannot begin until the irrigation project is complete. It is likely this project will begin in 2023, but not completed. Per our accounting rules, the VCA cannot post a project against its books until the project is completed. That is why we show it as a 2024 project.
Street Light Replacement*	\$353,000	Street lights along RVB are working intermittently. The VCA has hired engineers to diagnose the problem, fix what they can, and provide a long-term solution. The VCA is also talking with TOV to get a better understanding of lighting requirements and best practices for lighting maintenance and replacement.
Other	\$302,000	Primarily, playground equipment and park furniture.

* Per TOV can spread out project to replace 226 street lights on RVB over several years and can reduce the number of street lights

Slide 12:

It is important for BOD and homeowners to understand how and where their assessments are spent. The 2023 budget will deliver the following:

- Maximum investment in our community infrastructure now, while setting aside funds for future expenditures.
- Increase Reserve Fund Strength, moving it to a “strong” level
- Fair increase in quarterly assessment
 - only \$7/qtr (consistent with inflation rate)
 - significantly less than the allowed \$16/qtr

Hope that the details in these slides better defined the budget and can help you support the decisions made. Thank you.

Vistoso Community Association Board of Directors

10/27/2022