

SOMERSETT OWNERS ASSOCIATION

2020 OPERATING & RESERVE FUND BUDGET



***Presentation to the SOA Board of Directors & Homeowners on
October 9, 2019 by SOA Finance Committee/Treasurer and General
Manager – Tracy Carter***

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DISCLAIMER

- The information and data presented here are estimates prepared jointly with the guidance of SOA Management, Finance Committee and participating SOA Board members.
- The SOA Finance Committee has met several times beginning this past July 31, 2019 to prepare this information. Each of those meetings have been posted and were open to the unit owners with any input taken into consideration. Monthly F&B meetings are open to all unit owners.
- The Budget needs to be approved by the SOA Board of Directors at its upcoming board meeting scheduled for **October 16, 2019 at 5:30 pm.**
- A mailing with the 2020 budget and assessment information will be sent to all unit owners no later than **November 2, 2019**
- On **November 18, 2019 at 4:00 p.m.** the 2020 Budget is scheduled for ratification. The Board of Directors election results will also be announced at that time.
- All information and projections in this presentation are subject to change.

SOMERSETT OWNERS ASSOCIATION

VISION AND MISSION

OUR VISION

To Maintain Somersett as *The* most desirable community in Northern Nevada in which to live.

OUR MISSION

- To Strive to Increase Property Values for our Members Through Proper Management, Maintenance and Care of the Association Assets.
- To Be Fair and Consistent in Enforcing Rules and Covenants
- To Maintain A Strong and Sustainable Financial Environment That Achieves Community Objectives with No Burdensome Impact on our Members.
- To Collaborate with Community Members and Form strategic Partnerships with Vendors, Management and Financial Experts.
- To Inspire Community Members to Help Create a Coveted Lifestyle Which Excites New Residents and Reminds Existing Residents that Somersett **IS THE Place they will Continue to Call Home.**

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2019 OVERVIEW

- Although undesirable yet necessary, a Special Assessment of \$1,200 per unit owner was implemented on January 1, 2019 for the work required on two Rock Walls. One of the walls has been repaired and the other is being closely monitored, but not in need of work at this time.
 - The repairs on the wall that failed on Gypsy Hill Trail have been completed. With its completion a surplus has resulted vs. the assessed amount which will be added to the General Common Reserve balances for possible future rock wall repair needs.
 - The second wall has shown to be stable at this time; therefore not in need of immediate repair. The Board will continue to monitor the wall. The General Common reserve fund will maintain the remaining special assessment funds major rock wall repairs when needed.
- The addition of a pool at TCTC was completed & opened this past Memorial Day. Other TCTC projects such as new fitness equipment, interior painting, pool re-plastering and other projects are planned for completion this year.
- A new SOA landscaper was approved in early 2019 and the signs of their enhancement programs to Somerset has been very evident this spring, summer and fall.
- Each of the Committees have been fully engaged with positive contributions aiding the Management Staff and the Board in the governance of the SOA.

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ITEMS IMPACTING 2019

- Impacting General Common Financials
 - **Legal Fees over \$300K higher than budget**
 - Settlement Claim; \$128K
 - Unexpected Legal and Expert Witness Charges From 2017/8 Rock Walls
 - Excessive amount of legal defense early in 2019 defending the SOA from homeowner complaints.
 - Unplanned expenses to monitor almost a dozen rock walls; ~ \$60K.
 - A 2018 Year End Audit Adjustment impacting The Due To General Common Reserves Not Planned for of ~ \$105K.
 - The net impact of the above items depleted the General Common Cash Balances to a level significantly lower than the normally desired 2-4 months of Operating Cash on Hand.

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DRAFT 2020 BUDGET

- Planning an Avg. of 3,176 total units in Somerset.
 - About 45 more than 2019.
 - Buildout still projected to be around 3,400 units.

Unit Count History

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
General Common	2,376	2,478	2,588	2,718	2,865	3,082	3,115	3,163	3,176
% Change		4.3%	4.4%	5.0%	5.4%	7.6%	1.1%	1.5%	0.4%
TCTC	1,524	1,597	1,597	1,621	1,768	1,866	1,903	1,951	1,964
% Change		4.8%	0.0%	1.5%	9.1%	5.5%	2.0%	2.5%	0.7%
Gates	578	616	616	640	687	786	826	874	874
% Change		6.6%	0.0%	3.9%	7.3%	14.4%	5.1%	5.8%	0.0%

Assessment \$/Month

General Common	\$ 84.00	\$ 82.00	\$ 82.00	\$ 80.00	\$ 80.00	\$ 69.00	\$ 92.00	\$ 92.00
TCTC	\$ 75.00	\$ 74.00	\$ 74.00	\$ 76.00	\$ 78.00	\$ 89.00	\$ 89.00	\$ 89.00
Gates	\$ 72.00	\$ 64.00	\$ 64.00	\$ 64.00	\$ 64.00	\$ 64.00	\$ 54.00	\$ 54.00

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DRAFT 2020 BUDGET

- Somersett and ALL of its facilities are continuing to age; many approaching 15 years old.
 - With aging facilitates comes added and continuous repair and maintenance costs.
- Reno/Sparks & surrounding area(s) continues to show stronger than average economic growth. Puts pressure on labor, materials and scheduling costs/timing. Positive impact to Somersett are the continued strong home values of which are complemented by the highly valued community in which we all live.

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DRAFT 2020 BUDGET OBJECTIVES

- General Common Operating Cost Center
 - Replace depleted cash accounts due to unexpected expenses in 2019.
 - Potentially provide for additional reserve funding
 - Potentially begin to pay down debt accumulated in the past couple of years to fund the SGCC land and water rights purchase, rock wall repairs and the existing Canyon Nine debt taken on when the development was turned over to the SOA.
 - Continue to look ahead to future projects that will enhance Somerset such as; more advanced irrigation replacement equipment; continued tree replacements and the need for further fire fuel reduction efforts.
- TCTC
 - 2020 Projects include work on the Athletic Area; Stage Area; Acoustics in the Gym; Tennis Court Bounce Boards and a NV Energy energy reduction program.
- No major projects planned for the Gates area.

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2020 BUDGET

CONSOLIDATED:

* - 2019 Budget and Year End Est. Incl a \$3.8 Million Special Owner Assessment and Reserve Transfer

<u>Consolidated</u>	2020	2019	
	<u>Annual Budget</u>	<u>Year End Est.</u>	<u>Budget</u>
Owner Assessments	\$ 6,782,274	\$ 10,030,205	\$ 10,033,438
Other Revenue	\$ 555,970	\$ 530,170	\$ 548,000
Reserve Contribution	\$ (1,088,000)	\$ (4,794,180)	\$ (4,794,180)
Total Revenue	\$ 6,250,244	\$ 5,766,195	\$ 5,787,258
Payroll/FSR Mgmt Fees	\$ 1,436,362	\$ 1,394,920	\$ 1,417,232
Landscaping	\$ 1,259,139	\$ 1,248,874	\$ 1,283,112
C9 Maint	\$ 265,000	\$ 262,344	\$ 263,000
Debt Service	\$ 572,162	\$ 572,162	\$ 572,162
Utilities	\$ 508,692	\$ 500,042	\$ 513,866
Legal	\$ 202,000	\$ 552,807	\$ 254,379
Special Projects	\$ 50,000	\$ 304,668	\$ 393,655
Other Misc	\$ 1,490,927	\$ 1,364,926	\$ 1,348,193
Contingency	\$ 552,762	\$ -	\$ -
Total Exp	\$ 6,337,044	\$ 6,200,743	\$ 6,045,599
Net Revenue & Exp	\$ (86,800)	\$ (434,548)	\$ (258,342)

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2020 BUDGET

By Cost Center:

Avg Units	3,176	1,964	874	
Monthly Assessment	\$ 105	\$ 89	\$ 54	
	<u>Commom</u>	<u>TCTC</u>	<u>Gates</u>	<u>Total</u>
Owner Assessments	\$ 4,090,370	\$ 2,125,552	\$ 566,352	\$ 6,782,274
Other Revenue	\$ 302,220	\$ 249,050	\$ 4,700	\$ 555,970
Reserve Contribution	\$ (430,000)	\$ (353,000)	\$ (305,000)	\$ (1,088,000)
Total Revenue	\$ 3,962,590	\$ 2,021,602	\$ 266,052	\$ 6,250,244
Payroll/FSR Mgnt Fees	\$ 430,228	\$ 871,858	\$ 134,276	\$ 1,436,362
Landscaping	\$ 1,202,639	\$ 7,500	\$ 49,000	\$ 1,259,139
C9 Maint	\$ 265,000	\$ -	\$ -	\$ 265,000
Debt Service	\$ 386,571	\$ 185,591	\$ -	\$ 572,162
Utilities	\$ 408,510	\$ 81,822	\$ 18,360	\$ 508,692
Legal	\$ 200,000	\$ 1,000	\$ 1,000	\$ 202,000
Special Projects	\$ -	\$ 50,000	\$ -	\$ 50,000
Other Misc	\$ 516,880	\$ 910,631	\$ 63,416	\$ 1,490,927
Contingency	\$ 552,762	\$ -	\$ -	\$ 552,762
Total Exp	\$ 3,962,590	\$ 2,108,402	\$ 266,052	\$ 6,337,044
Net Revenue & Exp	\$ -	\$ (86,800)	\$ -	\$ (86,800)

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SPECIAL ASSESSMENT/RESERVES

- Based upon the current information regarding the rock walls and reviewing ALL of the Reserve studies -- there is currently **“NO”** need for a special assessment.
- Funds collected for the second half of the 2019 Special Assessment once fully collected by 12/31/2019 will be allocated for the rock wall at Round About 2 which at the time of the assessment was the next potential rock wall concern.
- Reserve Specialist that conducted our 2020 Reserve Study for all three cost centers, indicate that each of our reserve funds are “Adequately Funded” over the 30 year span of the study.
- Although the overall 30 year span shows adequate funding, the General Common Reserve Fund in 2020 through 2024 will show a “Fair” to “Poor” funding level as scheduled reserve expenditures are
 - In addition, with our debt situation, any future rock wall repairs beyond a second major rock wall repair could require a special assessment. To potentially mitigate some or all of that, the plan in 2020’s General Common Operating Budget will be to **increase** the monthly assessment of **\$92 to \$105/month**. This will allow more monies to be replace depleted operating cash, potentially add funds to the General Common Reserves or Pay Down some debt allowing for modest borrowing head room.

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2020 BUDGET

CONSOLIDATED RESERVE FUNDS @ 2020:

* Browning Reserve Group – Below 30% “POOR”; Above 30% “FAIR”; Above 70% “STRONG”

<u>2020</u>	<u>Common</u>	<u>TCTC</u>	<u>Gates</u>	<u>Total</u>
Replaceable Assets	\$ 8,491,735	\$ 3,141,497	\$ 6,717,395	\$18,350,627
Fully Funded Amount	\$ 3,960,798	\$ 1,972,310	\$ 2,988,248	\$ 8,921,356
Beginning Cash - 1-1-19 Est.	\$ 2,761,095	\$ 1,210,017	\$ 3,233,835	\$ 7,204,947
Reserve Contribtuion	\$ 430,000	\$ 353,000	\$ 305,000	\$ 1,088,000
Reserve Expenditures	\$ 869,071	\$ 539,409	\$ 64,876	\$ 1,473,356
Int. Earned/Misc.	\$ 44,477	\$ 19,544	\$ 58,693	\$ 122,714
Ending Cash 12/31/20	\$ 2,366,501	\$ 1,043,152	\$ 3,532,652	\$ 6,942,305
% Funded	59.7%	52.9%	118.2%	77.8%

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2020 BUDGET SUMMARY

- **Priority to replace depleted operating cash in the General Common Operating account to an avg. of 2 – 4 months.**
- **Begin to modestly fund the General Common Reserves in the near term as by general reserve standards they are not “adequately” funded.**
- **Although not reflected in the budget, begin to modestly pay down existing debt in both the General Common and TCTC cost centers as funding allows.**
- **Continue to always be “looking” ahead given the continued aging of our community and provide a fiscal budget both near term and with the reserves that continues to enhance our community.**
- **Continue to assess strategic initiatives to determine when adequate funding would be available for improving community benefits and amenities.**
- **Continue to manage and govern the Somerset community to meet or exceed our Mission, Vision and Goals.**

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2020 OPERATING & RESERVE FUND BUDGET



THANK YOU.....