

## ELDORADO COMMUNITY IMPROVEMENT ASSOCIATION

To: ECIA Board and Membership  
From: ECIA Finance Committee  
Subject: Fiscal Year 2020 Budget Recommendations from Finance Committee  
Date: Nov. 17, 2019  
Attached: Projected Replacement Reserve Model Results for 2020-2027

Here are the Finance Committee recommendations for the 2020 Operating and 2020 Repair/Replacement Budgets.

**2020 Budget Summary:** The Recommended Budget includes an annual assessment per lot for 2020 of \$550, an increase of \$25. It provides revenues of \$1,624,213 balanced by expenses and fund transfers allocated as follows:

- \$1,277,293 Operating expenses
- \$228,084 transfer from the Operating Fund to the Replacement Reserve Fund
- \$118,836 allocation to the Capital Reserve Fund

In addition, \$301,438 is budgeted for expenditures from the Replacement Reserve account, about two-thirds of it for completion of Pool reconstruction—mainly mechanical/electrical equipment, re-stucco and shade structures. In developing the budget, a financial model was used that estimates replacement requirements and operating needs for the next 30 years.

**2019 REVIEW:** Slightly over \$1M from Reserve funds were used in 2019 for an extensive reconstruction of the 40-year-old pool amenity (including bathhouse, decking, plumbing, electrical bonding, and backwash and effluent water systems) and a replacement of the Stables' water distribution system. All were at or past the point of failure.

The 2019 Operating Year is projected to finish with a large underrun in expenditures, and thus a large amount available for transfer to replenish reserves—about \$150K budgeted, and 250K unanticipated, for a total transfer of \$400K. Some of this underrun results from a greatly shortened pool season and unfilled staff positions resulting in operating savings.

These 2019 projections provided are based on October 2019 unaudited financial reports, and there will undoubtedly be changes at the end of the year and completion of the annual formal independent audit.

**2019 DETAILS:** 2019 results are projected for the following categories:

2019 Operating Expenses:	Budgeted	\$1,306,376
	Projected Expenditure	1,117,101
2019 Capital Expenditures:	Budgeted	\$65,000
	Projected Expenditure	-14,000

'2019 Replacement Reserve: Beginning of Year	\$1,300,692
Projected Expenditure	-1,022,000
Projected Transfer In	+ 400,000
End of 2019 Projected	\$ 678,692

**2020 OUTLOOK:** Because pool reconstruction expenses were largely anticipated in 2016 and 2018 with substantial assessment increases, combined with strict controls on 2019 Operating and Capital expenses, the assessment increase for 2020-21 can be held to \$25 (4.8%) from the 2018-19 amount. This is roughly consistent with the last two years-worth of inflation.

The Association's Bylaws allow for an assessment increase only every two years. **2020 is a year when an increase is allowed, and the Finance Committee recommends that the ANNUAL per-lot assessment be increased \$25 to \$550.** This should be sufficient, with modest increases every two years, to rebuild in another three years Reserves adequate for five years estimated expenses.

**Assessment Payment Options.** HOAMCO's web site provides for payment by credit card, along with a small convenience fee or by e-check without any additional fee. **Association members who find it difficult to make a single yearly payment may use HOAMCO's credit card option to pay over whatever term is more convenient for them and acceptable to their card issuer. In addition, any Association member who wishes consideration of special circumstances may contact the ECIA Office.**

**Legal expenses.** The ECIA has incurred significant legal expenses to defend its practice of allowing ground-mounted solar arrays under appropriate circumstances. One appeal has been settled in favor of the Association. There is reason to believe that another appeal will also be decided in the Association's favor. Court-ordered indemnification or insurance reimbursement may offset many such expenses.

**Capital Reserve Fund.** Several capital projects have been proposed for 2020, including the addition of a Family/Handicapped bath and changing room at the Pool. The Board has requested that funds totaling \$118,836 be set aside for these items.

**Replacement Reserve Fund.** As noted, expenses for Pool rehabilitation, wastewater system replacement, and Stables' water system replacement altogether required slightly over \$1M in expenditures from Replacement Reserves. This fund will again be built up over the next several years to handle anticipated and unanticipated replacements and repairs to Association property and amenities.

The Association's auditors have strongly recommended that we maintain a Replacement Reserve equal to five years of forecasted need. This is required in some states, and may become so in New Mexico in the future. Since the ongoing maintenance of Association amenities is a primary reason for the Association's existence, the Finance Committee and Board plan to maintain a schedule for contributions to a Replacement Reserve that will provide the necessary funds. Because of improved data and computer tracking tools, this schedule can now be reviewed and updated continuously throughout every year, and

adjustments made as required. Complete results of this analysis are available separately upon request to the Finance Committee; a summary of years 2020-27 is shown below. Detailed items planned for 2020 are shown in the proposed budget.

**FUTURE OUTLOOK: The recommended assessment will remain fixed for 2021.** The present financial model indicates that increases in the years beyond 2021 may only need to track inflation. The Board and Finance Committee will continue to monitor operating expenditures and maintenance requirements to assure that our assessments stay as low as possible consistent with our needs.

The Finance Committee wishes to thank other ECIA committees and chairs for their input, particularly the hard-working members of the Facilities and Grounds Committee. Special thanks are due to HOAMCO staff members, who have provided invaluable assistance in tracking expenses, and to former Treasurer Joseph Guterrez who provided guidance during most of 2019.

### 2019 ECIA Finance Committee

## Projected Replacement Reserve Model for Years 2020-2027

Assumptions: annual operating increase of 3% and biennial assessment increase of 5%\*

Year	End Yr Projection	R&R 5 Yr Projection	Ending Yr as % of 5Yr	Assumed Assessment	%CHG
2020	\$605,338	\$837,190	72.30%	\$550	4.8%
2021	\$732,335	\$835,626	87.60%	\$550	0.0%
2022	\$927,153	\$886,759	104.60%	\$578	5.0%
2023	\$970,240	\$829,902	116.90%	\$578	0.0%
2024	\$1,102,888	\$916,387	120.40%	\$606	5.0%
2025	\$1,213,852	\$913,332	132.90%	\$606	0.0%
2026	\$1,438,436	\$1,067,268	134.80%	\$637	5.0%
2027	\$1,616,346	\$1,098,499	147.10%	\$637	0.0%

**\*NOTE:** Future annual operating budget increases and/or biennial assessment increases **may or may not be needed.** The fact that future years show more than 100% of the 5-year goal (green highlight) suggests that if the model holds true, the actual assessment increases would likely be lower than the assumed 5%.