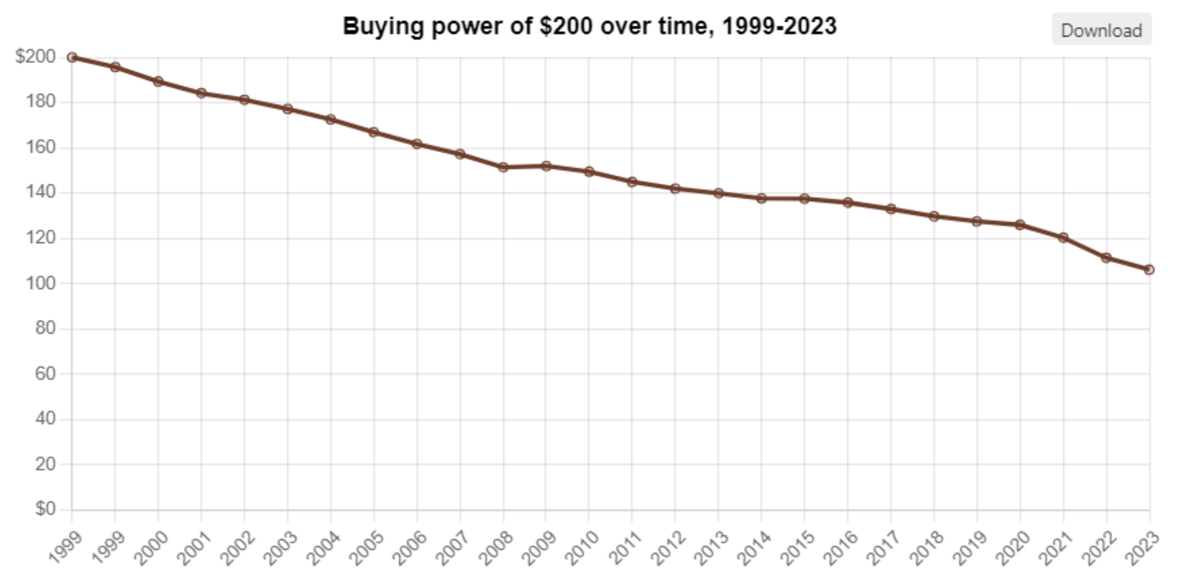
30 June 2023

An overview of HEPOA's long-term financial situation

In 1999, the developer set an initial assessment of $200 per lot for road maintenance. With creation of HEPOA in 2008, this road maintenance fee turned into HEPOA's Operating Fund. With the subsequent creation of the Reserve Fund, the $200 assessment was divided: $120 went towards yearly operating costs and $80 towards Reserve/maintenance costs.

In 2012, members approved an additional $100 per lot to add to the Reserve fund. Reserve funds retained by an HOA must be restricted to maintenance costs, including eventual road repaving or they will be subject to a flat 30% tax rate. The amount allocated to the annual operating budget thus decreased from the $200 operating funds of 2008. Additionally, the purchasing power of the 1999 original $200/lot has decreased over time, as shown in the following chart.



https://www.in2013dollars.com/us/inflation/1999?amount=200

Along with decreasing assessment income after 2014, this decreased purchasing power has led HEPOA to routinely exceed its $120/lot operating budget, first in 2010, and then every year since 2014. Notably, our utility costs have risen from $520 per year in 2009 to almost $1,400 in 2023. Additionally, our insurance costs have gone from $156 per year for a single liability-only policy to $1,731 per year for the three policies (liability, D&O, and theft) that were indicated by our original governing documents. And HOA insurance costs continue to rise sharply.

So far, we continue to collect only $120 per lot for operations (the member-approved Reserve fund apportionment is $180/lot). So, since 2014, annual operating shortfalls have been covered with money the 2012-member vote apportioned to the Reserve fund.

Given the operating budget limitation, we have relied on volunteers for various tasks such as tree-fall removal, maintaining appearances at the entrance, a critical drainage project at the common area, mowing and clearing over-hanging limbs on the right-of-way, and painting the Gazebo. None of these appearance-related tasks could be covered by our existing Operating budget.

Our roads are now 20 years old. To make projections of future Reserve needs, we recently obtained a professional study to understand future road maintenance schedules and costs. Leveraging this data, along with our historical maintenance records, the Treasurer developed an inflation adjusting planning spreadsheet to assist us in strategizing for future maintenance needs. This interactive spreadsheet is available here: https://heritageestatesnc.com/reserve-study-planning/ under the password "river123!." A video explaining its use is here: https://www.youtube.com/watch?v=nXV2249ZhNA . Most manipulations of the settings show shortfalls for re-paving the roads.

Even though our mowing costs are half what they used to be, other costs we shouldered in the past (landscaping, maintaining our entrance sign, and right-of-way limb trimming) are no longer affordable. Janet and I are donating much of the printing costs for mailings and Board business. For the last 8 years these costs were paid by money members had apportioned to future Reserves. That option is now closed. Our projection for the Reserve fund's adequacy when repaving the roads (ten years from now?) indicate unavoidable shortfalls. *According to reservestudy.com, if an HOA does not have enough cash in reserve for a predictable reserve project that "failed in plain sight, right on schedule" then the Board was neglecting its duties. In states that do not require HOA Reserves to be fully funded by law, full funded reserves are still defined as a fiduciary duty of Board members*. **So, this is your Board telling its members that we are not sufficiently funded.**

Both Operating and Reserve accounts need attention. Our projected cost needs until all roads are repaved in 2035 is $407,000. Continuing annual special assessments to cover operating costs will be needed if we don't plan ahead. And the opportunity to reap interest from putting banked Reserve funds into interest-bearing CDs will be lost. In the current home market, investing in good planning and full Reserve funding to protect the value of our homes in Heritage Estates has never been more advisable.

The current annual assessment rate of $300/year/lot is written into our Restrictive Covenants. Another $100/year/lot apportioned at $25/$75 between Operating/Reserve would ensure the future beyond 10 years out, including road repaving. The additional $25/lot in operating funds would cover everything and give us an extra $1000 a year to pay for some of the things that volunteers are now doing. It will require 2/3 of all the Association's votes to change the annual assessment to avoid our future needs being met by continued special assessments. Our Reserve planning sheet shows that we can notably reduce the pain of future special assessments (and build perhaps a quarter of the money needed with the returns on Reserve investments) but it will be up to the members to support the needed changes in the Restrictive Covenants.

Duane Esarey, HEPOA 2023 President