

The West Bluff Hills News

issue #4 (6/8/19)

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The elephant in the room

In the last issue, we talked about the budget and all the different size "buckets" where portions of your HOA fees go. A bucket for landscaping, a bucket for electricity, and one for pool maintenance. Of all the 30 some buckets, the largest of all is the Reserve Fund bucket. It's the money we must bank now and use for future capital expenditures like roof replacement, exterior painting and asphalt rejuvenation.

***We will be supplying a lot of analysis here so if you are a renter or a homeowner who hates numbers and analytics, feel free to skip down to the word "summary" below.

Ok, for those of you who are still with us (thanks for reading!)

Each month, we are putting \$7,622 of our HOA dues in the reserve bucket. Over the year, we (currently) fund it with \$91,470. It is the biggest bucket by far, taking 28% of our HOA dues! As our analogy continues, if you looked inside this big reserve bucket, you would see 17 smaller, yet different sized buckets. Portions of that \$7622 are placed in each of these 17 buckets monthly, and these have names as well and are identified in what is called a **Reserve Study**.

At the end of every year, all owners are sent a year end disclosure packet. In this packet, along with the budget, is a copy of [the current reserve study](#). Some of you may already know how important this reserve study is. Others may just put it in a stack of papers or file it away somewhere, never to be studied, but studied it should be!

It is three pages long, but for simplicity, we will concentrate on page one. The top half the page is text and the bottom half is a table showing the 17 "reserve buckets". We will look at the table first.

Fiscal Year: January 1, 2019 through December 31, 2019

<i>Category</i>	<i>Estimated Remaining Useful Lives</i>	<i>Estimated Current Replacement Cost</i>	<i>Fund Balance on Dec 31, 2018</i>	<i>Estimated Reserve Allocation</i>	<i>Estimated Special Assessment Allocation</i>	<i>Estimated Interest</i>
Asphalt & Concrete	0 to 15	\$236,805	\$58,761	\$15,937.35	\$0.00	\$498.45
Buildings, Decks	22 to 22	\$300,000	\$15,714	\$4,262.00	\$0.00	\$133.30
Buildings, Doors	6 to 20	\$54,200	\$6,063	\$1,644.42	\$0.00	\$51.43
Buildings, Interiors	1 to 9	\$40,150	\$9,800	\$2,657.98	\$0.00	\$83.13
Buildings, Pests & Termites	0 to 0	\$7,800	\$8,649	\$2,345.72	\$0.00	\$73.36
Buildings, Plumbing	1 to 3	\$32,800	\$9,841	\$2,669.08	\$0.00	\$83.48
Buildings, Roofs	3 to 10	\$365,080	\$90,995	\$24,680.06	\$0.00	\$771.89
Contingency	0 to 0	\$4,300	\$4,768	\$1,293.15	\$0.00	\$40.44
Electrical/Lights	7 to 12	\$20,600	\$4,143	\$1,123.75	\$0.00	\$35.15
Fence/Gates/Walls	5 to 28	\$127,038	\$17,750	\$4,814.08	\$0.00	\$150.56
Fire Safety	3 to 3	\$4,200	\$1,237	\$335.63	\$0.00	\$10.50
Irrigation	0 to 9	\$29,400	\$10,633	\$2,883.87	\$0.00	\$90.20
Landscape	3 to 7	\$24,800	\$5,081	\$1,378.05	\$0.00	\$43.10
Mailboxes	8 to 8	\$25,000	\$5,981	\$1,622.15	\$0.00	\$50.73
Paint	0 to 3	\$130,400	\$65,032	\$17,638.27	\$0.00	\$551.65
Pool & Spa	0 to 8	\$49,610	\$21,929	\$5,947.66	\$0.00	\$186.02
Signage	15 to 15	\$5,000	\$873	\$236.78	\$0.00	\$7.41
Totals:		\$1,457,183	\$337,250	\$91,470	\$0	\$2,861

The complete reserve study is available by request from the Association.

Each item has a remaining useful life as shown in column two. Look for the low remaining life numbers, as those items will be the first to require replacement.

The third column is the estimated current replacement cost and, like our budget, we have some big elephants. Buildings, Roofs, \$365,000 (3-10 years), Buildings, Decks, \$300,000 (recently rebuilt, so 22 years) and Asphalt and Concrete, \$236,805 (with 0-15 years left). The fourth column shows how much we have saved so far for that item and the fifth column shows how much will be added to each of these "buckets" this year.

Example: Look at the "paint bucket" (third from the bottom). The study says that we have 0-3 years left before we need paint. Estimated cost to paint, \$130,400 but the amount we have saved as of 12/31/18 is only \$65,032. The fifth column shows that we are feeding that fund \$17,638 this year. The course of action is to get bids for painting, then hold off the work, if possible, until the funds are available. There could be a pleasant surprise if the bids are well under the \$130K estimate, and unpleasant if over.

The "Decks" bucket (2nd from the top) which has a replacement cost of \$300,000 only has \$15,714 and yet, we are only putting in \$4,200 this year. But we have 22 years to fully fund this component! In the year 2041 (estimated), we will have this expense that will have grown with inflation.

Keep in mind that the estimated remaining useful lives and estimated replacement costs are just that as these numbers are generated by a sophisticated computer program. The report says that we have 3-10 years left

on the roofs. It could be 2 years or it could be 11, but sometime in the future the roofs will start to fail on a scale that is just so large that it won't be economically feasible to do spot repairs.

Paragraph Three: The most important part of this entire report is the text above the table, especially the third paragraph.

"As of December 31, 2018, the estimated ending reserve fund balance is \$337,250 and the estimated current replacement cost is \$1,457,183 for the portfolio of reserve components. The projected future replacement cost of the portfolio is \$2,132,973, calculated at an annually compounded rate of 3.00%. The Association's level of funding which is based upon the estimated ending reserve fund balance divided by the reserve components' fully funded amount is 42.12%. This is referred to as Percent Funded. The Association would be 100% funded if there were \$800,695. in the reserve fund."

It sounds somewhat complicated but it's not. This paragraph tells us that we had (as of 12/31/18) \$337,250 in our reserve fund. But to be totally on course, we should have had \$800,695, which is the "fully funded" amount. Divide 337,250 by 800,695 and you get 42.12% funded.

Even though other associations have funding levels this low, it is not a good number. It means we are in catch up mode. But, even if we were at 100%, we would still have to fund the reserves, just not as much. The replacement cost, which is the cost to fix everything all at once, right now, is \$1,457,183. Fortunately, not everything needs immediate fixing.

The amount of funding that goes into the reserves is a board decision, made yearly. In the history of WBH, many boards failed to properly fund our reserve fund. There were long runs of years when there were no increases in dues at all and for two consecutive years, the homeowners were given a reduction in dues! We don't have any data on the proportion of dues that went to reserve funding over the years but suspect it would be very interesting, yet disappointing to see.

Extra Credit: If you are a number nerd, check out [the table on page 3](#). It shows how the reserve balance fluctuates yearly (in column 3) as money is spent (in column 8), and it shows how we will hypothetically reach our goal of 100% in the year 2048. Look at the fluctuations! Check out the numbers (columns 3 and 8) for the years 2040 and 2041. Big expenses (maybe it's the decks), yet we still climb up to 100% in the following seven years. But, also note that we will be supporting our reserve fund with a quarter million dollars in each of those years, a far cry from the \$91K we supply now.

Some solutions:

1. Follow the plan outlined in paragraph five of the reserve study and increase the reserve contribution by 3.73% per year. Understand that this is not 3.73% of your dues but only the reserve allocation (avg. \$95/mo). Currently, 3.73% of the contribution is about \$3.50/mo. So, you can expect this increase to be dialed into you monthly dues for the next 30 years. And, it slowly increases yearly. In 2048, the monthly average allocation will be \$276 and 3.73% of that will be \$10.30.

Then, remember we still have all the other budget items (water, gas, electricity, pool maintenance, etc) whose costs will go up with inflation. It's inevitable that we will be looking at regular HOA fee increases yearly.

2. More painful solutions:

A. Pay more into the reserve fund every year. Instead of 3.7%, maybe something like 4.7% or 5.7%. In 2020 3.7% = \$3.50, 5.7% = \$5.42, about \$2 more per owner, per month (average).

B. Supplement the 3.7% increases with yearly assessments (example \$500 per homeowner per year for 5-10 years). The extra \$40,000 yearly would go directly into the Reserve Fund. We would climb back up quicker and be able to scale back the 3.7% contributions sooner. Davis-Sterling rules allow boards to declare, without a general vote, a special assessment of up to 5% of the current budget gross expenses. With our budget of \$324,000 a board could assess up to \$202. per owner per year (generating \$16,000). Anything more would require a majority of membership vote.

C. Assess every homeowner \$5793 (page 1, paragraph four of the reserve study) and immediately put the reserve fund at 100%. This would require a vote of 41 owners to pass and would put hardships on many. Yet, it would mean a reduction in HOA fees as we would not be in catch up mode. There is a fear that a board of directors seeing all that money might be less frugal in their spending practices and fix things before their life runs out.

Two final thoughts: 1) There is an advantage of being more fully funded sooner rather than later. We would be collecting more interest on our principal which would, in turn, put less load on our HOA fees 2) Having lower HOA fees and a well reserved property increases the value when the time comes to sell. Wise homebuyers and agents place a higher value upon a well reserved home and are more cautious about poorly funded associations.

Summary:

The [Reserve Study](#) is a document given to all homeowners at the end of each year. It evaluates how much life is left in our (17) major capital systems. It estimates how much each is likely to cost when it wears out. From that, the study calculates how much money the association should set aside each year so that

there will be enough to replace those items when they wear out. The board is responsible for determining the yearly reserve funding amount.

Our study says that we should have \$800,000 set aside yet we only have \$337,000. This corresponds to 42% funded.

We are in catch up mode and funding our reserve "bucket" with 28% of our monthly dues. To reach our 100% funded goal, we will need to increase the funded amount (currently at \$91,470 per year) by 3.73% annually for the next 29 years.

In 2020, 3.73% equates to an increase of \$3.50 (average) in dues per month per unit. This amount will slowly increase every year and by the year 2048 the monthly dues reserve component will be \$10.50. This does not take into account any additional fee hikes to maintain the operating budget.

There are other options available to reach the 100% funded amount sooner but each requires a greater financial commitment by the homeowners.

A board meeting was held May 28 at Prescott Companies. Six homeowners were in attendance. Our property manager is Lori Graham and if you are a WBH owner and need to contact management, call 760-634-4700, or email: customerservice@prescottmgt.com Prescott is a big company so be sure to state that you are a West Bluff Hills homeowner and Lori Graham is your manager.

Here are some of the topics discussed at the meeting

- **Two board vacancies were filled.** Our two new board members are Vicki Robertson and Rick Laird. Welcome!
- **The pool and spa are open!** Only the South gate needs fixing and is temporarily closed. Use the East gate to get in and out. The pool temperature on June 5th was 73 degrees. The board is considering options for gate and lock replacements.
- **Towing:** As of June 1st, Western Towing has been given permission to tow any vehicle parked in red zones or in front of garages (also defined as red zones). If you choose to park briefly in front of your garage for loading or unloading purposes, stay near your vehicle. According to Lance from WT, If you are hooked up to the truck, you should be able to show proper ID and not be towed (and no drop fee). Once they leave the property, in tow, plan on about \$300 with a \$60 per day storage fee.
- **Website:** The domain, WestBluffHills.com will not be maintained for the immediate future. You can try Prescott's TownSquare website instead. We will be loading up all [the pertinent documents](#) on our site as well, available to both owners and tenants, no login required!
- **Landscaping:** The board is investigating replacement of existing water hungry plants with vegetation and ground cover requiring less water. The

entire project will be spread out over time. The first section being evaluated is on the South side and near the pool (red and blue zones in particular) Development of the areas shown on this phase ([see map](#)) are initially priced at \$24,582. For now, there was no definitive action and the subject was tabled.

- **Lighting:** Light bollards (small vertical columns) will eventually be installed along the long stairway NW of the pool. The board is investigating ways to install two of these and keep the costs down (tabled).
- **Parking Rules:** The board president introduced a new set of parking rules. They are still open for discussion and perhaps, modification by the board. They provide two free permits for resident vehicles and set aside a number of spaces in the parking lot reserved solely for guest vehicles. More on this following the next meeting.

The next meeting will be June 25th, 6 pm at Prescott Companies in Carlsbad.

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WBH News,
We'll keep you informed.

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