

# Lake Forest Glen HOA Annual Meeting

## Financial Review

October 12, 2019

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# Agenda

- Financial Philosophy
- 2019 Budget Summary
- Operating Expense Management Performance
- 2020 Budget & Forecast Considerations
- Reserve & Dues Scenario Analysis
- 2020 Proposed Budget & Dues

# Financial Philosophy

- **Prudent**

- Fiscal management is prudent and judicious
- “It’s our own money”

- **Proactive**

- Don’t avoid maintenance that will create future financial issues at higher cost

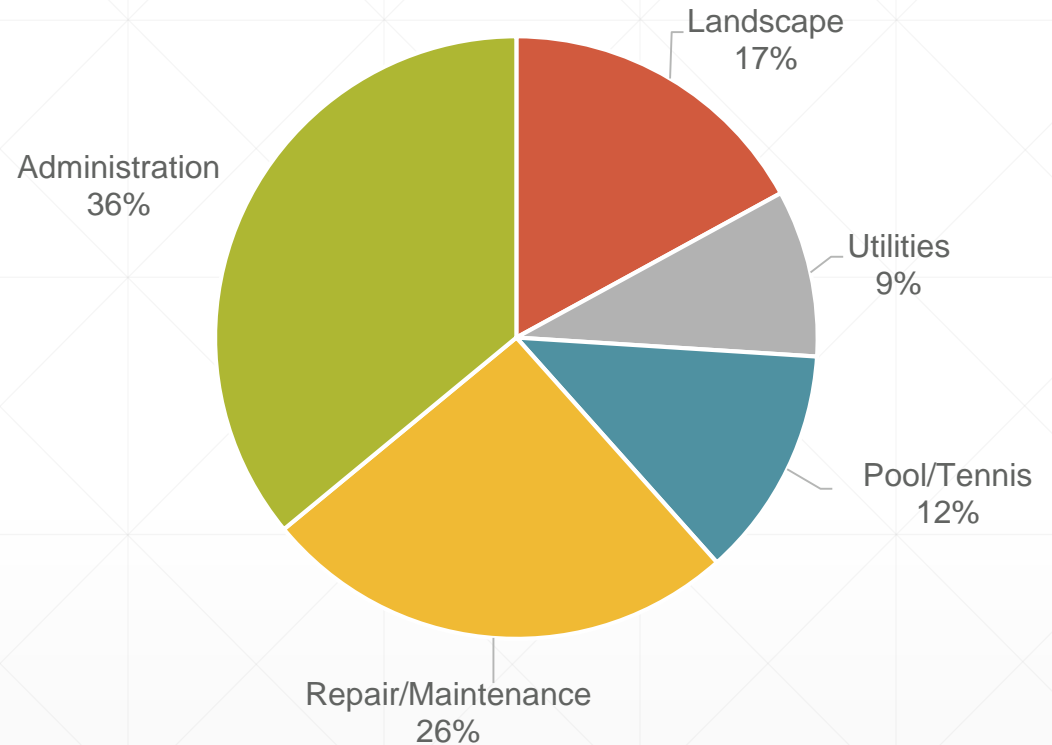
- **Plan**

- Avoid special assessments
- “We forecast and regularly review our assumptions”

# 2019 Budget Summary

- Revenues: \$1,016K
  - Dues: \$1,011K (\$360/month)
  - Interest Income: \$5K
- Operating Expense Budget: \$598K
  - Vs. Prior Year Actual: \$567K, +\$31K, +5%
- Reserves
  - Beginning balance: \$853K
  - Dues allocated to reserves: \$399K
  - Reserve spending (\$112K): Asphalt sealing, fill and striping; truck replacement; building siding/trim
  - Projected year-end balance: \$1,140K

Operating Expense Budget (\$598K)



# Operating Expense Management Performance

2019 projected spending 1% over budget due to higher maintenance and garbage costs

	2019				2018				2017			
	Projected	Budget	Delta	%	Actual	Budget	Delta	%	Actual	Budget	Delta	%
\$												
Landscape	102,380	101,930	450	0%	94,370	112,777	-18,407	-16%	79,247	85,455	-6,208	-7%
Utilities	56,800	53,600	3,200	6%	56,127	53,400	2,727	5%	55,781	53,400	2,381	4%
Pool/Tennis	75,390	74,190	1,200	2%	72,425	79,194	-6,769	-9%	65,145	58,217	6,928	12%
Repair/Maintenance	156,663	153,206	3,457	2%	124,880	157,841	-32,961	-21%	174,156	167,517	6,639	4%
Administration	215,150	215,151	-1	0%	219,229	206,109	13,120	6%	191,037	192,540	-1,503	-1%
<b>Total</b>	<b>606,382</b>	<b>598,076</b>	<b>8,306</b>	<b>1%</b>	<b>567,030</b>	<b>609,320</b>	<b>-42,290</b>	<b>-7%</b>	<b>565,366</b>	<b>557,129</b>	<b>8,237</b>	<b>1%</b>
Annual %	7%	5%			0%	8%			6%	5%		
Labor	320,345	320,345	0	0%	289,927	325,969	-36,042	-11%	288,669	282,006	6,663	2%
Annual %	10%	10%			0%	13%			5%	3%		

# 2020 Budget & Forecast Considerations

- Operating Expense Forecast
    - Current year-over-year forecast and local cost expectations
  - Reserve Study & Projections
    - 50+ year projection of future capital improvements
    - Incorporates latest replacement cycles and inflation assumptions
    - Facilitates prudent planning **now** for large investments **later** vs. one-time assessments
  - Reserve & Dues Scenario Analysis
    - Ensure sufficient reserve for next major project (roofing replacement) with minimum \$1M balance after completion of project
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# 2020 Operating Expense Forecast

	Operating Expenses			
	2020	2019	2020 YoY	
	Forecast	Projected	\$	%
Landscape	106,954	102,380	4,575	4%
Utilities	56,800	56,800	0	0%
Pool/Tennis	79,688	75,390	4,298	6%
Repair/Maintenance	167,465	156,663	10,802	7%
Administration	232,496	215,150	17,346	8%
<b>Total Op Expenses</b>	<b>643,403</b>	<b>606,382</b>	<b>37,021</b>	<b>6%</b>
Labor (incl. above)	335,923	320,345	15,578	5%

- **Insurance (+\$11K, +17% y/y)**
  - Increased insurance due to higher replacement cost and overall property market increase due to natural catastrophe losses
- **Snow Removal (+\$9K, +21% y/y)**
  - Contract cost increase; total \$52K budget still materially below market
- **Labor (+\$15.5K, +5% y/y)**
  - Per latest labor estimates, including higher seasonal labor costs
  - Landscape, Pool/Tennis and Admin increases are labor-driven

**2020 YoY increase +3% (+\$17K) when excluding Insurance and Snow Removal increases**

# Reserve Study & Projections: Capital Improvements

Replacement Item	Current Replacement Cost	Remaining Life	Life After Replacement	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
<b>Total Building/Roof</b>	\$3,075,250	0-13	1-22	\$34,000	\$54,000	\$49,000	\$49,000	\$3,000	\$49,000	\$9,500	\$55,750	\$56,000	\$49,000	\$1,106,000	\$904,000	\$913,000	\$49,000	\$49,000
<b>Total Roads</b>	\$1,066,000	0-21	1-25	\$6,000	\$11,000	\$6,000	\$56,000	\$6,000	\$11,000	\$6,000	\$56,000	\$6,000	\$11,000	\$6,000	\$56,000	\$6,000	\$11,000	\$6,000
<b>Total Pool / Spa</b>	\$569,500	0-8	2-15	\$46,000	\$53,500	\$0	\$43,500	\$6,000	\$3,500	\$0	\$433,500	\$6,000	\$33,500	\$0	\$3,500	\$6,000	\$3,500	\$0
<b>Total Tennis Courts</b>	\$141,000	0-18	5-20	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$18,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total Painting</b>	\$450,000	2-5	6	\$0	\$112,500	\$112,500	\$112,500	\$112,500	\$0	\$0	\$112,500	\$112,500	\$112,500	\$112,500	\$0	\$0	\$112,500	\$112,500
<b>Total Office</b>	\$8,500	1	4-8	\$8,500	\$0	\$0	\$0	\$2,500	\$0	\$0	\$0	\$8,500	\$0	\$0	\$0	\$2,500	\$0	\$0
<b>Total Trucks</b>	\$155,000	0-3	5-10	\$0	\$45,000	\$70,000	\$0	\$0	\$0	\$45,000	\$0	\$0	\$40,000	\$0	\$45,000	\$70,000	\$0	\$0
<b>Total Fencing</b>	\$1,000	0-1	1-2	\$1,000	\$500	\$1,000	\$500	\$1,000	\$500	\$1,000	\$500	\$1,000	\$500	\$1,000	\$500	\$1,000	\$500	\$1,000
<b>Total All</b>	<b>\$5,466,250</b>			\$95,500	\$276,500	\$238,500	\$261,500	\$131,000	\$64,000	\$61,500	\$676,250	\$190,000	\$246,500	\$1,225,500	\$1,009,000	\$998,500	\$176,500	\$168,500
<b>Inflation Factor</b>				1.02	1.04	1.06	1.08	1.10	1.13	1.15	1.17	1.20	1.22	1.24	1.27	1.29	1.32	1.35
<b>Provisions for Federal Income Tax</b>				36	36	36	36	36	36	36	36	36	36	36	36	36	36	36
<b>Provisions for Franchise Tax</b>				36	36	36	36	36	36	36	36	36	36	36	36	36	36	36
<b>Inflated Replacement Costs</b>				<b>97,482</b>	<b>287,743</b>	<b>253,170</b>	<b>283,128</b>	<b>144,707</b>	<b>72,146</b>	<b>70,716</b>	<b>792,407</b>	<b>227,140</b>	<b>300,554</b>	<b>1,523,827</b>	<b>1,279,728</b>	<b>1,291,738</b>	<b>232,960</b>	<b>226,851</b>

**\$4.1M total required over 2030-2032 timeframe**

\*July 2019 estimate; assumes 2% inflation



# 2020 Reserve & Dues Scenario Analysis (2020-2034)

- Principle: Ensure sufficient reserve for next major project (roofing replacement) with minimum \$1M balance after completion of project
- Three scenarios modeled with annual dues increases of 1%, 2% and 2.8%
  - 2.8% Dues Increase
    - Builds sufficient reserves; reserve balance of ~\$1M in 2033 after roofing project
  - 2% Dues Increase
    - Builds sufficient reserves; reserve balance of ~\$270K in 2033 after roofing project
  - 1% Dues Increase
    - Builds some reserves, but insufficient for roofing; negative reserve balance in 2033 and thereafter

# 2020 Proposed Budget & Dues

- Operating Expenses: \$643K
  - Insurance, snow removal and labor costs expected to increase
- Reserve Spending: \$97K
  - Pool deck/fencing, BMP, landscape, and general maintenance
- Dues: 2.8% increase from \$360/month to \$370/month
  - Per latest estimates, a 2.8% annual dues increase keeps pace with inflation and provides sufficient reserves with minimum \$1M balance after next major project (roofing replacement)
  - To be reviewed annually

# Appendix

# 2020 Proposed Dues Breakdown (\$370/month)

