

SECLUDED VALLEY HOMEOWNER'S ASSOCIATION

P. O. BOX 1441

LAFAYETTE, CA 94549-1441



RESERVE STUDY

2023



November 11, 2022

Dear Homeowners,

I am very pleased to have our SVHOA Treasurer, Costas Karathanos to team up with and provide our Homeowners with the **SVHOA 2023 Financial Reserve Study**. This study required many hours to complete. Additional data had to also be gathered from the historical data from both our records and additional information from California's financial projected maintenance standard costs. Fortunately, our Association has completed the renovation of our SVHOA Pathways in 2020 and the tennis court resurfacing in 2018. The information gleaned from this experience proved to be very useful. It has allowed the Board to better analyze our Financial Reserves with much more preciseness.

The Standard for undertaking Pathway Maintenance and Repairs is between 3-5 years. Previously, our SVHOA Pathway maintenance was conducted every 6 years. From conversations with some of the former Officers of the original Boards, little or in-depth maintenance occurred during the first 10 years of our Association. The condition of our Pathways, prior to the recent 2020 maintenance and repair project, indicated that severe deterioration existed on every pathway. It was also determined that some prior repairs appeared to have been applied incorrectly. It appears that the shortcuts were probably done for the purpose of saving money. The interval of time between repairs was also determined to be too long.

After having held discussions with experts in the Maintenance field and as well as becoming more updated with our Pathways, it has been concluded that our Association must shift from a 6-year cycle to a 4-year cycle to try and stay ahead of the pathway deterioration curve. The curve was now well underway. If our Association had the necessary funds to bring our Pathways up to better conditions, we could have easily spent more than \$175,000 to accomplish that objective. The next several years will remain critical in this process. With new protocols in place, it is apparent that our new 4-year cycle appears to be the right timeframe to repair, restore and bring new resiliency back to our aging Pathway system. Please continue to enjoy your amazing infrastructure.

Peter Milcovich.

President, Secluded Valley Homeowner's Association



November 11, 2022

Dear Secluded Valley Homeowners,

It has been my honor to serve the Association since 2017 and all of you know my investment philosophy which is:

- Will not overspend
- Will allocate our revenue to the best return projects
- Will try to build our reserves

I want to focus on the last bullet item which is a very topical subject considering the current economic backdrop. The pandemic resulted in an unrepresented economic inflationary cycle pushing CPI in excess of 8% annually only to be followed by the delayed actions of the Fed on playing catch-up by raising interest rates. The end result has been a sharp increase in the costs of capital projects something that all of us have been experiencing in our daily lives, both on the professional and personal levels. Simply put, EVERYTHING is more expensive and the California Bureau of Real Estate operating cost manual that was last updated in 2016 is simply out of touch with the current market rates.

Getting to the point: my previous assumptions on the replacement costs of the Association assets could be materially below market values, and we will not know the real true-ups until we are ready to execute on a capital project. All I can promise you from our standpoint as fiduciaries of the Association's capital is that we will try to optimize the replacement window for repairs and will not simply accept and/or sign-on unrealistic contractor bids that we consider to be out of touch in the current economic environment. Basically, I would like to communicate to you that we will not undertake projects if the contractor bids are 2x or 3x normal and are willing to push projects to the right if that preserves and doesn't penalize the Association's balance sheet, but of course, without compromising the safety and well-being of the Association's members and doesn't deteriorate materially the structural integrity of the asset.

I hope that everyone is staying healthy and want to wish you happy holidays. I am truly proud to be your Treasurer,

Costas Karathanos
Treasurer, Secluded Valley Homeowner's Association

Fixed Assets:

TENNIS COURTS:

Our Association has two regulation tennis courts. The tennis court core is an enormous slab of concrete that comprises the tennis court base. Based upon historical data, the courts originally were to be resurfaced, repainted and caulked every 6 years. Because of the work which was accomplished four years ago as a result of the repair and remediation project, the condition of the Courts, is still considered to be very good. Therefore, we will continue to maintain a 6-year maintenance cycle. Under the current state of repair the core is expected to last another 40+ years. Of course, some equipment purchases for the tennis courts will need to be made. Nets, squeegees and perhaps even some repainting of the lines may need to be undertaken. However, these are generally lower-cost items that typically will be budgeted in a Special Account of the Operating Annual Budget. The basketball backboard and standard located in the Tennis Courts is in the need of replacement. However that project will be undertaken in the future (possibly next year) as funds permit, as it is a lower priority.

The Operating Cost Manual published by the California Bureau of Real Estate in 2016 provides the following informational guidelines:

Net Replacement:	Time Period: 5 years	Cost ~\$400 /court
Concrete Resurfacing:	Time Period: 5 years	Cost: \$6.25 /sf.
Elastomeric Caulking:	Time Period: 4-6 years	Cost: \$7 /ft.

PATHWAYS:

The Association's Common Areas contain approximately 5k linear feet of 6-foot-wide asphalt pathways. The original plans and specifications indicated that a typical cross section of the paved pathways revealed a 4-inch base, type AB and 2 inches of asphalt topping, type AC. In order to keep the pathways from deteriorating, Historically, it was previously recommended that we need to both slurry and repair the paths every 6 years. However, after a very close inspection of the pathways, in 2020 it was determined that all pathways were in a deteriorated condition. Severe cracking both horizontally and longitudinally exist in many areas throughout the pathways. The cause of this unfortunate situation that existed in 2020 seemingly stemmed from a lack of prior action to shorten the preventative maintenance pathway cycle. Additionally, a greater emphasis is now placed on actual repairs rather than seal coating. What exists today with our 50-

year-old pathways is exemplified by the current crumbling, cracking and lack of elasticity in our pathways.

Our goal is to achieve the best results by optimizing our capital. As a result we are shortening the pathway maintenance cycle from 6 years to 4-years. Although this will increase costs in the short-term, it is considered essential to maintain respectable pathways for the long-term.

In addition to the pathway, the board in 2021 decided to include the Culverts/Draining ditches as part of the reserves estimating a useful life of 30 years, a replacement cost of \$25k and remaining life of 15 years.

The Operating Cost Manual published by the California Bureau of Real Estate provides the following guidelines:

Asphalt surfaces - Blacktop: reseal every 3-5 years: Cost \$0.50/sf/year

PLAYGROUND:

New equipment was obtained in 2016 after an arson fire destroyed the previous play apparatus. The life expectancy of the current equipment is expected to last about 30-40 years. Replacement cost will be about \$27.5k in 2041 dollars. The fencing around the playground was repaired in 2017 due to children climbing the fence. It is currently in good condition but will probably need some repairs approximately every ten (10) years. A cleanup of the playground and weed culling is an annual occurrence. Sand, as well as swing seat replacements may need to be added every few years.

COMMON AREA:

The Common Area is monitored for diseased, dying or dead trees and bushes. Over-grown brush is also monitored for possible fire hazards. The Common Area continues to provide a peaceful and natural setting for all of our Homeowners and their families to enjoy. The magnificent presence of our Common Area certainly adds value to everyone's property value. Every year our Association conducts an annual Weed Abatement Program. In 2022, the annual cost of this program was \$4,600.

FUNDED RESERVES:

Based on all the changes we have incorporated in the Association's Asset valuations and potential replacement values, the MINIMUM annual cash infusion to our reserve account needs to be ~\$11/year. Due to our careful budgeting and

expense monitoring, we should be able to fund our reserves at an excess of \$11k/year, absent any major capital projects and unforeseen events.

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Calculation assumptions:

The 30-year model incorporated the following assumptions:

	<u>Annual</u>
Fixed asset cost inflation (was 3% before)	4.0%
Operating expenses cost inflation (was 2.5% before)	3.0%
Homeowners dues increases	3.0%
Interest on Reserve Fund balances	Negligible (0.01%)

The projected income & expense for the next 30 years is:

Homeowner Dues:	\$2.16M
Operating expenses	\$1.62M
Cash to fully fund reserves	\$0.54M

Financial health

Current association cash reserves	\$66k
Current asset replacement value/repairing costs	\$115k
Current balance	-\$49k

2052 financial health

Association cash reserves	\$52k
Asset replacement value/repairing costs	\$359k
Balance	~-\$300k

Funding Plan:

We continue to implement an annual 3% increase in fees, but it is obvious that the addition to the culverts to the asset base and the shortening of the pathway maintenance time cycle are adding pressure to the Association's finances. At this point, I don't want to panic and propose new initiatives (such as one-time member contribution, higher percentage fee increases etc.) to balance the shortfall because I believe that costs will normalize. However, the financial

environment is dynamic and if adverse conditions continue for a prolonged period, further steps, like the ones mentioned above need to be in place so we can protect and preserve the Association's Assets and Members' interests.

	30%			0.01%			4.0%			4.0%			4.0%			4.0%			Total		
	Income	Expenses	Delta	Initial	Interest	Year End	Court Core	Resurfacing	Repairs	Maintenance	Culverts	Playground	Expenses	Over/Under	Court Core	Resurfacing	Repairs	Maintenance	Culverts	Playground	Expenses
1	2023	45,374	34,121	11,253	66,028	77,287	-	-	-	-	-	-	-	(37,813)	40,000	11,600	15,000	10,000	25,000	13,500	115,100
2	2024	46,735	35,145	11,590	77,287	50,821	-	12,064	15,600	10,400	-	-	38,084	(69,883)	41,600	12,064	15,600	10,400	26,000	14,040	119,704
3	2025	48,137	36,199	11,938	50,821	62,764	-	-	-	-	-	-	-	(61,728)	43,264	12,547	16,224	10,816	27,040	14,602	124,492
4	2026	49,581	37,265	12,296	62,764	75,066	-	-	-	-	-	-	-	(54,405)	44,995	13,048	16,873	11,249	28,122	15,186	129,472
5	2027	51,069	38,404	12,665	75,066	87,739	-	-	-	-	-	-	-	(46,912)	46,794	13,570	17,548	11,699	29,246	15,793	134,651
6	2028	52,601	39,556	13,045	87,739	70,376	-	-	18,250	12,167	-	-	30,416	(69,661)	48,666	14,113	18,250	12,167	30,416	16,425	140,037
7	2029	54,179	40,743	13,436	70,376	83,819	-	-	-	-	-	-	-	(61,819)	50,613	14,678	18,980	12,653	31,633	17,082	145,638
8	2030	55,804	41,965	13,839	83,819	82,402	-	15,265	-	-	-	-	15,265	(69,082)	52,637	15,265	19,739	13,159	32,898	17,765	151,464
9	2031	57,478	43,224	14,254	82,402	96,665	-	-	-	16,651	-	-	15,265	(60,657)	54,743	15,875	20,529	13,686	34,214	18,476	157,522
10	2032	59,203	44,521	14,682	96,665	75,774	-	-	21,350	14,233	-	-	35,583	(88,049)	56,932	16,510	21,350	14,233	35,583	19,215	163,823
11	2033	60,979	45,856	15,123	75,774	90,904	-	-	-	-	-	-	-	(79,472)	59,210	17,171	22,204	14,802	37,006	19,983	170,376
12	2034	62,808	47,232	15,576	90,904	106,489	-	-	-	-	-	-	-	(70,702)	61,578	17,658	23,092	15,395	38,486	20,783	177,191
13	2035	64,692	48,649	16,044	106,489	122,543	-	-	-	-	-	-	-	(61,735)	64,041	18,572	24,015	16,010	40,026	21,614	184,279
14	2036	66,633	50,108	16,525	122,543	78,139	-	19,315	24,976	16,651	-	-	60,942	(113,511)	66,603	19,315	24,976	16,651	41,627	22,478	191,650
15	2037	68,632	51,612	17,021	78,139	(17,392)	69,267	-	-	43,292	-	-	112,559	(216,708)	69,267	20,067	25,975	17,317	43,292	23,378	199,316
16	2038	70,691	53,160	17,531	(17,392)	139	-	-	-	-	-	-	-	(207,149)	72,038	20,891	27,014	18,009	45,024	24,313	207,289
17	2039	72,812	54,755	18,057	139	18,197	-	-	-	-	-	-	48,698	(197,384)	74,919	21,727	28,095	18,730	46,825	25,285	215,580
18	2040	74,996	56,397	18,599	18,197	(11,900)	-	-	29,219	19,479	-	-	27,349	(236,104)	77,916	22,596	29,219	19,479	48,698	26,297	224,203
19	2041	77,246	58,089	19,157	(11,900)	(20,092)	-	-	-	-	-	-	27,349	(252,264)	81,033	23,499	30,387	20,258	50,645	27,349	233,171
20	2042	79,564	59,832	19,732	(20,092)	(26,794)	-	26,434	-	-	-	-	26,434	(269,293)	84,274	24,439	31,603	21,068	52,671	28,442	242,498
21	2043	81,950	61,627	20,323	(26,794)	(6,471)	-	-	-	-	-	-	-	(256,669)	87,645	25,417	32,867	21,911	54,778	29,580	252,198
22	2044	84,409	63,476	20,933	(6,471)	(42,507)	-	-	34,182	22,788	-	-	56,969	(304,793)	91,151	26,434	34,182	22,788	56,969	30,763	262,286
23	2045	86,941	65,380	21,561	(42,507)	(20,946)	-	-	-	-	-	-	-	(293,723)	94,797	27,491	35,549	23,699	59,248	31,994	272,778
24	2046	89,550	67,342	22,208	(20,946)	1,262	-	-	-	-	-	-	-	(282,426)	98,589	28,591	36,971	24,647	61,618	33,274	283,689
25	2047	92,236	69,362	22,874	1,262	(49,870)	-	-	-	-	-	-	97,570	(270,910)	102,532	29,734	38,450	25,633	64,083	34,605	295,036
26	2048	95,003	71,443	23,560	(49,870)	(25,603)	-	30,924	39,988	26,658	-	-	-	(344,714)	106,633	30,924	39,988	26,658	66,646	35,989	306,838
27	2049	97,853	73,586	24,267	(25,603)	(608)	-	-	-	-	-	-	-	(332,483)	110,899	32,161	41,567	27,725	69,312	37,428	319,111
28	2050	100,789	75,793	24,995	(608)	25,138	-	-	-	-	-	-	-	(320,013)	115,335	33,447	43,251	28,834	72,084	38,925	331,876
29	2051	103,812	78,067	25,745	(608)	51,658	-	-	-	-	-	-	-	(307,299)	119,948	34,785	44,981	29,987	74,988	40,482	345,151
30	2052	106,927	80,409	26,517	25,138	51,658	3	-	-	-	-	-	-	(307,299)	124,746	36,176	46,780	31,187	77,966	42,102	358,957