

Robson Ranch CCF Task Force Presentation

Capital Contribution Fee

(Resale Buyer's Fee)

Task Force Members:

Dan Conrad - Vice Chair

Marge Doughty

Lloyd Fleming

John Koski

Sheryl Mercado

Bill Meyer

Jim Moore - Chairman

Homeowners Association Reserve Fund Background

In the early stages of a community, the Developer installs the roads, common areas, sewer lines, water lines, etc., and begins selling homes. They also build the planned amenities, such as clubhouses, fitness centers, pools, etc., along the way. As these amenities are built, they are “turned over” to the Homeowners Association (HOA) to operate and maintain for the benefit of the residents. The annual cost to operate and maintain these amenities and roads are paid for by the homeowners, as they are now owned by the homeowners. All homeowners are members of the HOA, which collects annual dues for the operation and maintenance of these amenities. Until there are enough homes constructed, and enough homeowners paying dues, the costs to operate and maintain the amenities are more than the dues collected from the homeowners. The Developer understands that they must subsidize the HOA for many years until there are enough dues-paying homeowners to cover the cost of the annual operations.

At some point, there will be enough homes built, and homeowners paying dues, to cover all the annual operating expenses. The Homeowner’s dues will typically increase as new amenities are built, but after all the planned amenities are built, the dues typically level off with regards to the annual operating costs.

However, as the amenities age, the HOA is faced with large capital repairs and replacement of those aging amenities. In order to address these future costs, the HOA begins saving money in a Reserve Fund. The purpose of the Reserve Fund is to pay for those large capital expenditures, without having to charge special assessments to the residents of the community who happen to be living there at that time. Because the Developer is not responsible for funding a Reserve Fund, the contributions to that Reserve Fund will not typically start until the community is out of subsidy and has extra money to contribute to the Reserve Fund. This money would be that portion of the HOA dues that exceeds the cost of operations. The longer it takes for a community to get out of subsidy, more the amenities age and the timeframe to build a Reserve Fund shortens. The result is a large increase in homeowner’s dues to fund it.

In addition, the money saved in a Reserve Fund can only be used to repair and replace existing amenities. After the Developer is finished building the planned amenities, the homeowners may desire to build a new amenity or renovate an existing amenity. Reserve Fund money cannot be used for these types of expenditures. The options are to go without or charge a special assessment to the community. In order to avoid the need for a special assessment, many large HOAs collect a Capital Contribution Fee (CCF) from the buyers on the resale of an

existing home. It is viewed as a “buy-in” from the new homeowner. While the money cannot be used for the annual operating expenses, it can be used to provide financial stability in other ways. The CCF moneys can be used to contribute a Reserve Fund while a community is still in subsidy, and Developer is still building amenities and improvements.

Definitions:

RCI: Robson Communities, Inc.

HOA: Home Owners Association

CC&R: Covenants, Conditions & Restrictions

HOA Dues: That portion of your annual assessment that covers the costs of operations – salaries, maintenance, utilities, insurance, etc. (CC&R paragraph 12.1).
2018 HOA Dues = \$1,990

Amenity Fee: That portion of your annual assessment that reimburses the cost of amenity construction. (CC&R paragraph 9.6).

Subsidy: The amount of money RCI spends to cover the cost of operations that exceeds the HOA dues collected from homeowners.

Capital Contribution Fee: A fee, to be paid by the buyer of a resale home, equal to the amount of the current yearly HOA dues in place at the time of the purchase

Reserve Fund: The fund established and maintained by our community to cover the cost of repair and replacement of our **EXISTING** streets, amenities and furnishings owned by the HOA.

Capital Improvement Fund: The fund established and maintained by our community to cover the cost of **IMPROVEMENTS** to our amenities and furnishings or the construction of **NEW** amenities and furnishings once RCI completes the community.

Operating Expenses vs. Reserve Expenses vs. Capital Improvements

Operating Expenses

These are the HOA's day-to-day expenses. People should think of this, as "minor repairs "not" replacements. Operating expenses include contracted services (i.e. landscaper, pool contractor, gate maintenance, management), insurance, utilities, taxes, administrative expenses (i.e. accounting fees, office expenses), and maintenance expenses (minor *repairs*). HOA's use the pro forma budget to help create a map for the upcoming year's operating expenses.

Reserve Expenses

Reserve expenses are the ***replacement*** of and ***major repairs*** to existing building components; not the minor repairs. So, we can compare a component and demonstrate whether it is an operating or a reserve expense. If the Association replaces the roofs, the roof replacement is a reserve expense. Associations must also maintain a separate bank account that is deemed the reserve account. The best way of distinguishing the operating and reserve accounts is to think of the operating account as a checking account while thinking of the reserve account as a savings. The Board has the authority to cause the replacement of and major repairs to existing components as needed, assuming that the funds are available.

Capital Improvements

Capital improvements are projects where a new component is introduced to the community. It is a project that, once installed, will then create operating expenses and future reserve expenses. An example would be a community's desire to install a bocce ball court when that amenity does not already exist.

Reasons for Establishing a Reserve Fund

Educated homebuyers may not invest in a community that is not maintained or does not have a reserve fund. Additionally, lenders may not approve mortgage applications in communities with no reserve or low reserves. Arizona does not require reserves or a reserve study.

The following are common reasons for maintaining a reserve fund:

1. Reserve funding meets fiduciary requirement.
2. A reserve fund provides for the planned replacement of major items.
3. A reserve fund minimizes or negates the need for special assessments.
4. A reserve fund may enhance resale values because associations must disclose information about their reserve funding policies and current balance.

The following are examples of expenses that could be paid from the reserve fund. These examples come from Robson Ranch and other Robson communities.

Resurface 2 Tennis Courts	\$31,229
Replace Patio Furniture	\$63,335
Resurface Outdoor Pools	\$73,012
Replace Heat Pump	\$6,881
Replace Ballroom A/C unit	\$14,619
Replace Ballroom Carpet	\$52,927
Recover Patio Chairs	\$25,690
Clubhouse Remodel	\$46,057
Fitness Center Bathroom Remodel	\$18,844
Replaster Pool Surface	\$34,386
Reseal a section of a main road	\$40,433
Install ADA Lift in ballroom	\$10,199
Restaurant Remodel	\$188,096
Install ADA Auto Door	\$4,512
Poly Chip a main road into community	\$355,161
Convert Tennis Courts to Pickleball	\$36,041
Install Handicap chair for indoor pool	\$5,412
Install Shade Ramada at Pickleball courts	\$11,250

What is a Capital Contribution Fee?

A one-time fee charged to the Buyer of a resale Lot (home) in Robson Ranch. The relevant changes to the CC&Rs would be:

1. The Fee, to be paid by the Buyer, would be an amount equal to 100% of the current HOA dues in place at the time of the purchase of the home.
2. Exclusions to the Fee:
 - a. A current home transferred or conveyed via a gift, will or intestate succession (passing without a will).
 - b. Transfers or conveyance of the title to one or more of the Owner's Family Members (defined as parents, spouse, child, or siblings),
 - c. Any other transfer or conveyance for a nominal consideration.
 - d. The purchase of a home by the former owner of another home within one (1) year of the closing on the previous home.
 - e. The owner of a home purchases another home and pays the Fee. If within one year, the Owner sells one of the homes to a person who in turn pays the Fee the Owner would be refunded the Fee that he previously paid.
3. The proceeds from the Fee may only be used for contributions to either the Reserve Fund or the Capital Improvement Fund. They cannot be used for normal operations. The HOA Board must decide prior to the end of each fiscal year how much of the proceeds collected during that year will go into each of the respective funds.

The following two recommendations from this task force would be incorporated into the change to the C,C&Rs. These recommendations are:

1. For the initial ten years that the Fee is in place, a minimum of 100% of the monies collected from the Fee would be transferred to the Reserve Fund. Following the initial ten years, the HOA Board, with recommendations from the Finance Committee, will determine annually the amount to be allocated to each fund.
2. Any spending from the Fund can only be used for items as defined by Reserve Fund definition.

Questions and Answers:

1. *Why do communities implement these kinds of fees?*

To collect money repairs and replacement of existing capital assets and for needed future assets. The CCF fee will also assist in minimizing future dues increases and/or special assessments.

2. *What is the process for amending the CC&Rs?*

A vote is called by the HOA Board. Ballots will be sent to each homeowner/lot in good standing, and a simple majority of the votes cast must be in favor of the Amendment to change the CC&Rs.

3. *Can Robson Corporation, Inc. (RCI) vote in the election?*

RCI can vote on each of the undeveloped lots that have been platted. RCI is entitled to 3 votes for each of these platted lots. There are currently approximately 582 platted lots.

4. *Will RCI vote its Lots?*

Only Ed Robson can answer this question. He did vote in favor of the Capital Improvement Fund at Saddlebrooke (similar to the proposed RR CCF). Historically, Mr. Robson's vote has aligned with the majority of the community, but it is his prerogative to cast his votes as he chooses.

5. *Do other HOA communities have a similar fund?*

Yes, many other communities have a similar fee.

Name	Fee	Who Pays	Notes
Saddlebrooke One	Current HOA Dues	Buyer	
Saddlebrooke Two	Current HOA Dues	Buyer	
Rancho Sahuarita	1% of selling price	Seller	Fee negotiable at time of sale
GVR	\$2474	Buyer	Can be changed by Board
Sun City	\$4550	Buyer	Capital Preservation fee & Dawn Lake Transfer fee
Sun City West	\$3500	Buyer	Asset Preservation Fee
Sun City Grand	\$1291	Buyer	C.A.R.E Fee (Community & Resident Enhancement)
La Solana	\$1291	Buyer	Sun City Grand C.A.R.E
Westbrook Village	\$1852.50	Buyer	Capital Preservation Fee (Waived if already Resident Owner)
Sun City Festival	.0025 of Selling price	Buyer	Community Enhancement
Ventana Lakes	\$2185	Buyer	Preservation and Document Fee
Trilogy	\$2034.12	Buyer	Capital Improvement
Corte Bella/Rosmar & Graham	\$896	Buyer	Reserve Fund

6. *Do you know of any HOAs that have voted against a CCF?*

Quail Creek did vote the measure down last year. The homeowners are bringing it up for a revote in the near future. However, Saddlebrooke Ranch passed the initiative by a vote of 370 to 10.

7. Why is the CCF only on Resale lots?

HOA dues paid by the buyer of a new home contribute additional revenue to the community, while the sale of an existing home does not.

Furthermore, while the CC&Rs specifically exempt the Declarant (RCI) from any assessments and charges, the Declarant has contributed millions of dollars to subsidize the community's annual expenses over the years.

8. Why is the CCF assessed on the Buyer?

The Buyer is the party who will receive the benefit of monies spent from the Reserve Fund on community Improvements. That said, all fees associated with the purchase of a home are negotiable between the Buyer and the Seller of any property.

9. Will a CCF affect the sale of resale homes?

It is possible that a CCF fee could impact the ability to sell an existing home in RR. However, a buyer could view a CCF fee as a positive factor, since it adds a level of financial stability to the RR community.

10. What are the alternatives to a CCF?

Some possible alternatives could be higher HOA dues, special assessments, and/or usage fees for amenities such as tennis, pickleball the swimming pools etc.

11. What would be the impact of rejecting the CCF amendment to the CC&Rs?

In the event a CCF is NOT established, the HOA Board has the authority to raise the required funds to meet future Capital Expenditures needs through other means as outlined in Q10 above. A CCF will lessen the need for, or the amount of future increases to HOA dues or Special Assessments (for future Capital Expenditures). A secondary impact could be lower demand for resale houses if potential buyers deem that insufficient funds are held in the Reserve Fund to meet future Capital Expenditure needs.

12. How much additional revenue would result from a CCF?

The amount of revenue would be dependent on the number of qualified resales in the community. Over the past two years there has been an average of 60 resales per year. Had the CCF been in place during 2016 at our current dues rate it would have provided

**approximately \$199,000 of revenue (equivalent to approximately \$172 per household)
The following table provides an idea of potential revenues.**

Resale Homes Sold	Annual Dues 2018	Revenue Generated	No of Homes in RR	Equivalent Revenue/Home
50	\$2018	\$99,500	1157	\$86
100	\$2018	\$199,000	1157	\$172
150	\$2018	\$298,500	1157	\$258

Every dollar collected for the Fund, is a dollar that current RR homeowners will not pay in dues or special assessments

13. *Would villa buyers be subject to the same fee as non-villa buyers.*

The villa buyers would be subject to the same fee but only for the master HOA dues. The second HOA fee, primarily for exterior maintenance, will not be subject to the CCF

14. *If approved, when would the CCF be implemented?*

The actual date will be 60 days following the date that the amended CC&R's are filed with Pinal County.

15. When do we expect the subsidy from RCI to end?

It is hard to determine an exact number of houses necessary to cover annual operating expenses without a subsidy from RCI. It depends upon many factors including number of community amenities, the annual dues per house, etc.

16. Will HOA Dues increase as additional amenities are built?

HOA dues are reviewed each year during the budgeting process. With more amenities, there is an increase in operational expenses. Dues can be adjusted accordingly.

17. Why not incorporate future expenses into our HOA dues?

**We can, however, this would mean large increases to the HOA to cover the increased HOA operating expenses and HOA capital requirements
In order to keep the community in the best condition, funds are always needed for capital expenditures. There will be requests from residents for new amenities and/or enhancements.**

18. Why now?

If a CCF is not established before our community is complete and the HOA assumes responsibility for repair and replacements of our streets, amenities and furnishings, a Reserve Fund will be established to cover the costs at that time; however funding of this Reserve Fund will be 100% reliant on home owner contributions at that time with no further subsidy from the developer. Establishing this CCF early will allow our community to start putting money into the Reserve Fund before our community is out of subsidy. As mentioned in question 11, this Reserve Fund will lessen the need for, or the amount of future increases to HOA dues or special assessments to meet our Capital expenditure requirements.

19. How will the assessment be handled?

One year's annual HOA Dues will be assessed on the buyer of the resale of an existing property. The funds will be deposited into our Reserve Fund or our Capital Improvement Fund account upon closing.

20. Is anyone exempt from this fee?

- a. A current home transferred or conveyed via a gift, will or intestate succession.**
- b. Transfers or conveyance of the title to one or more of the Owner's Family Members (defined as parents, spouse, child, or siblings),**
- c. Any other transfer or conveyance for a nominal consideration.**
- d. The purchase of a home by the former owner of another home within one (1) year of the closing on the previous home.**
- e. The owner of a home purchases another home and pays the Fee. If within one year, the Owner sells one of the homes to a person who in turn pays the Fee the Owner would be refunded the Fee that he previously paid.**

21. Where will these funds be held?

The fund will be held in an interest-bearing account in the name of the HOA.

22. Who will be responsible for making spending decisions?

The HOA will prepare an annual budget that will be reviewed by the Board of Directors. Large capital expenditures are part of the annual budget and resident input will be considered during the open meeting regarding the annual budget.

23. Who will vote on the creation of the CCF?

Since the CCF will require a change to the CC&Rs; residents will be asked to vote on any changes. The vote will include lots owned by RCI.

24. When can we expect to hear more about this?

Over the next two months there will be meetings for homeowners to learn about this proposal and ask questions. We would like to have a vote by early 2019.