

STRAIGHT TALK

From Carole Bedwell, President

Heritage Highlands HOA
Board of Directors

Dear Heritage Highlands Homeowners,

RESIDENT INPUT TO THE STRATEGIC PLANNING WORKING GROUP PART III Financial Oversight Efficient and Effective Operation

This is a continuation of the series which is responding to resident input to the Strategic Planning Working Group. The Board and the Working Group appreciate the inputs provided by the residents.

Inputs -

- "Homeowners dues should continue at \$160 in 2010 and 2011."
- "2009 budget should be base case for 2010 & 2011."
- "Keep HOA dues in 2010 & 2011 same as 2009."
- "Make dues constant."
- "Do not raise monthly fees any higher."
- "No more borrowing."
- "Maintain reserve balance at current levels."
- "No deficit spending."
- "Breakdown budget completely by entity."
- "Breakdown financials into categories."
- "Homeowners rates should not exceed inflation."
- "Firm date for review of losses."

The homeowner's monthly dues have been the same for the last three years, 2008 - 2010. The Board and HOA management have continued to manage the budget to maintain the strong financial position that we have obtained. This remains a challenge in the current economic climate. The results of the previous 12 months play a significant role in the development of the following year's budget. As an example, the utility costs for '10 will be higher than '09, so to base '11 expenses on '09 figures would place the budget in jeopardy.

It is not possible to make dues constant. We all know that our cost of living changes

whether or not we change our style of living. It is no different with the HOA. If you commit to a constant level of dues it would then create the potential for having to impose special assessments to provide for fluctuations in expenses. We know that the cost of utilities is projected to continue to increase in the future.

The loan that is being repaid is a no interest \$600K loan that the developer made to the community in 2004 when the developer was still in control of the community. The loan replaced a \$5 million subsidy debt that had accumulated in the first 7 years that the community was in operation, and when revenues did not fully cover operating expenses.

The residents took control in August 2006 and took the final installment (\$150,000) in 2007. Those funds were deposited in our bank account and established as a cash reserve to provide emergency funding, if needed. Those funds remain on deposit in our account given to the fact that the Board has been able to operate the HOA from a positive cash position since 2007. Borrowing monies is not a financial strategy that the Board has endorsed.

The Reserve Investment and Planning committee has developed a financial plan to finance the Reserve Fund expenditure plan for the next 30 years. Approximately 40% of the fund is earmarked for street repair and replacement in the future. The amount of contribution from residents to meet these needs is heavily dependent on the amount of earnings that we can realize from our investment of these funds and the accuracy of the expenditure plan.

There has not been any deficit spending since the resident Board has been in place. While there have been deficits shown in various departments within the organization, the HOA has not incurred an overall deficit in the last three years and there is not a deficit projected in the proposed budget. The Board reviews the financial condition of the HOA on a monthly basis with input from the Financial Affairs Committee.

The 2010 budget is available on the website for review. The budget is broken down by departments and major revenue and expense categories within the departments. If you wish to see more details, you may check with the HOA office.

Lastly, Section 3.3 of the CC&Rs limits the amount of increase that can be levied on the regular assessment (monthly dues).

Inputs -

"We are way over-staffed, compare us to a city of comparable size."

"Number of employees too high."

"Concerned with the high labor costs and associated hidden risks of personal litigation and workmen's compensation issues."

"Through attrition, convert non/low skilled jobs to resident unpaid volunteers."

"Residents need to be able to evaluate performance of staff."

"Do a complete review of paid staff."

"Job descriptions needed for staff."

"Establish target allocations for each department to show performance."

The HOA has a staff of 59.4 full-time equivalent positions to operate what amounts to three types of business operations. Almost 75% of the total staff is assigned to the two specialized operations in this community, Golf and Food/ Beverage. The revenues from these two operations amount to 58% of our gross revenues. The usage of personnel is reviewed annually as part of the budget review process. In fact, the personnel cost for '10 is lower than it was in '09.

Due to the varied business disciplines there is not a scale of efficiency that can be realized by cross training or use of personnel. The skills are very distinct and not conducive to such strategy. Employment of individuals does expose any business to potential litigation and compensation issues. That cannot be avoided. However, we are diligent in our compliance with applicable state and federal employment requirements, adequately insured relative to compensation issues, and consult with legal resources conversant with employment issues.

There are job descriptions for staff. Those descriptions are continually being revised to show changes in operations. The Board is in the process of creating a committee who will be charged with working with management on pay and other related personnel related issues.

Inputs-

"Look for ways to reduce expenses while maintaining core amenities

"Charge renters for using facilities."

"Entire community should share financial burden of maintaining assets due to direct relationship to value of residences."

"Entire community should share financial burden of maintaining assets."

"We use too much paper, don't print newsletter, put on Internet."

"Newsletter is a money maker via advertising, keep printing it, good for block captains."

"Sustain the HH website as a communication and marketing tool."

HOA management has instigated various strategies to reduce expenses while maintaining core amenities, an example is the purchase of a blanket for the swimming pool that has saved several thousands of dollars in heating costs. The purchase of sunscreens for the South side of the clubhouse during the summer to reduce cooling costs is being proposed for '10. Xeriscape landscaping has been installed in various areas to reduce water consumption. Investigations have been made into various solar energy technology applications. Also, strategies to reduce turf on the golf course will be explored.

Renters are being treated no different than guests when using the facilities paid for by the homeowner. Whether the house is being rented or the owner is living in it, the facilities are being used by a person authorized to be in the community.

The entire community shares the costs of maintaining all of the facilities and property. The deficits incurred in golf or food and beverage are subsidized from the dues revenues. These operations are amenities and are considered to affect overall property values. They are also a benefit to all homeowners.

The Highlander is printed and also placed on the website. There are still residents who do not have access to or use computers. The publication is a major source of information on activities in the community and therefore is felt to have value in a hardcopy form. Revenues from advertisement cover the costs of publishing. The volume of copies printed and its size are closely controlled to avoid waste. The HH website is the community's major communications resource. In '08 the Board authorized Management to upgrade the system to provide a more efficient and responsive communications network. The new website has been launched and will provide the homeowners with more information and communication capabilities. The marketing site will continue to be supported and interact with the new website.

Inputs -

"Food and Beverage and golf must become self-sustaining."

"Food and Beverage make it more self sustaining."

"Budget in 2009 should reflect same revenues for food and beverage and golf as 2008."

"All fees should be no higher than other communities with similar facilities.

"Manage HOA, restaurant and golf course as businesses."

"Develop plans to improve food and beverage, golf & common areas before we delve into other areas."

"Maintain food and beverage losses consistent with other similar communities."

The Golf and Food and Beverage operations are amenities of the community. It is the goal of the Board and Management to provide the community the most financially successful operations of both of these departments. We have seen improvements and are striving to continue that trend to the extent possible. However these amenities do contribute to the overall value of the community and may require some level of resident support. Our research and consultations with outside professionals regarding these operations has validated this position. Management of both operations will continue to implement different strategies to improve the results. The Board will continue to monitor both programs going forward.

The Board does manage the entire HOA as a business. This is a combination of a service organization as well as a commercial business entity. We remain sensitive to the fees paid by the residents to operate the community, but cannot commit to managing fees at a level no higher than those in similar communities given that there are numerous factors that influence revenues and expenses. We remain informed of the results of operations in other communities and explore strategies being used in these environments to address various phases of their operation which may be applicable to HH.

The final part of this series will be released next week.

Carole Bedwell, President
Heritage Highlands HOA
Board of Directors



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