

Fishing Creek Farm

CAPEX Committee Presentation Annual Meeting 28 FEB 2021

"We envision Fishing Creek Farm to be a community of friendly, caring and respectful neighbors who work together to achieve a higher quality of life, to increase property values and to grow friendships.

We envision a neighborhood that residents and non-residents consider to be a desirable place in which to live and enjoy the benefits of family, friends and community."



CAPEX 2.0 Mission

- Provide recommendations for:
 - Meeting documented capital project needs
 - Addressing other strategic asset issues (as directed by Board)
 - Evaluating potential HOA member-recommended improvements (if possible)
- Complete process and present recommendations to HOA Board
 - 5-10 year road map for addressing capital improvements
 - Address other long-term responsibilities (>10 years)
 - Funding and implementation plans
- Capital Asset Focus Annual Dues (Budget) are related, but not the focus
 - Yearly "Contribution to Reserves" line item funds capital program

CapEx 2.0 Committee

Colleen Clark
Deb Brafford
Chauncey Brooks
Kristan Dix
Eamonn McGeady
Jim Shaffer
Dave Stadler

Objectives

- Establish a funding approach that guarantees the maintenance of our assets at the desired level
- Specifically, institute a funding approach (financial plan) using a combination of HOA dues increases and special assessments that:
 - Remain <u>protected</u> for their intended use across many years and board changes
 - Become an <u>integrated</u> part of the standard process by which we manage our community's finances
 - Still offer some <u>flexibility</u> in future years (e.g. allow board to grant funding reductions or even "holidays" if we are underspending what we expect to need)
 - Are <u>equitable</u> to homeowners across years and changes (e.g. do not put a burden on people selling and buying in the next few years)
 - Are <u>predictable</u>, avoid surprising homeowners and provide financial certainty



- Meeting every week for one hour
- Creation of comprehensive cash flow model including costs from consultants and additional costing performed by the committee
- Hundreds of individual conversations, focus groups, surveys, newsletters, town hall presentations
- 63% of lot owners completed the dues and reserve fund preference survey



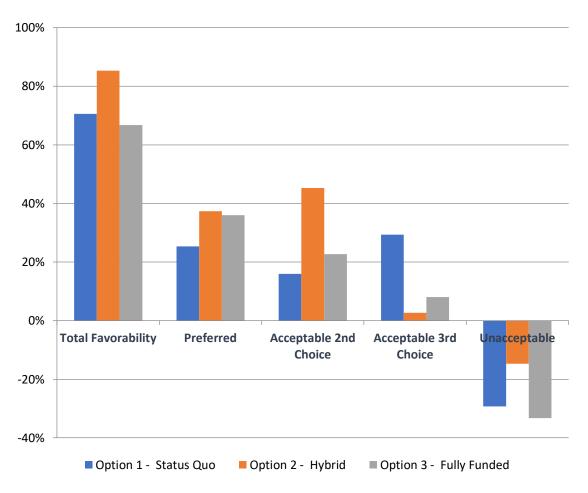
... rounding third base

Three Options

Option	Description	Factors
Option 1 "Status Quo":	 Raise annual dues to \$1911.20 (10%) in 2022, continue increase of 10%/year until 2027, 5% annual increase through 2029 Special assessments whenever required to meet capital asset needs 	Board can raise 10% per year without vote. However, several special assessments* will be required
Option 2 "Hybrid":	 Raise annual dues to \$2041.50 (17.5%) in 2022, maximum 3% increase annually through 2029 Special assessment of \$800/lot in 2022, no special assessment planned again until 2030 	One special assessment* in 2022 and then not again until 2030 if needed
Option 3 "Fully Funded:	 Raise annual dues to \$2606.18 (50%) in 2022, no annual dues increases projected until 2032 	No special assessments* until at least 2032

^{*} Special Assessments require approval of 51% of lot owners

Survey Results



Option 2 (Hybrid)

- √ Was most preferred option
- ✓ Was most favorable overall (1st,2nd or 3rd choice)
- ✓ Had the lowest unfavorable overall (unacceptable)

Keys to Remember

- We are deciding on a <u>funding model</u> not an actual <u>spending plan</u>
 - Based on best estimates of when assets will require maintenance and cost
 - Only for existing assets. Any new assets would be a separate decision
- Community approval of a proposed funding model ensures reserves are kept at industry recommended levels and sufficient funds are available to meet capital asset requirements
- The CAPEX Committee is recommending Option 2 (Hybrid) to the Board. A key reason is favorability among homeowners
- The CAPEX Committee has an ongoing role in future years
 - Review roadmap every year taking into consideration the actual deterioration of assets, new information from homeowners, county, and grant authorities. Suggest a spending plan for next year
- The spending plan for 2021-2022 will be mostly planning projects with no major construction work beginning until 2023
- CAPEX initial work is complete. Next step is for Board to determine a path forward based on CAPEX results



Fishing Creek Farm

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Reference Slides

FCF By the Numbers

120 Permitted Residential Lots

- 2 formally Zoned Recreation Areas
- 17 distinct Storm Water Management structures
- 40-plus acres of dedicated environmental area in 19 formally Zoned Open Space parcels (including paths and beaches)
- 2.4 miles of South River, Fishing Creek / Chesapeake Bay shoreline





The Challenge

- The reserve fund is used to pay for capital repairs of the common assets of Fishing Creek Farm (FCF) and to spread the burden evenly across years and homeowners.
- For the first 20 years of the Homeowners Association (HOA) this has not been a problem as assets were new. In 2012 when FCF needed to address the clubhouse renovation sufficient funds had not been reserved so a special assessment was done. Other assets such as pool, marina, tennis courts and drainage are approaching end-of-life and must be maintained to preserve the value of FCF for all homeowners
- Year end 2020 HOA Reserve Fund projected to be \$200,000 with contribution of \$15,960 (8.2% of annual dues)
- The current amount in reserves along with expected contributions from annual dues is insufficient to meet projected long-term needs.



An Independent View

- Miller Dodson was retained to assess the FCF assets and suggest a funding level to assure that we can maintain the assets. In 2017 M+D recommended that we fund at \$3,265 per homeowner per year beginning in 2017. This represents a total of \$391,867 total. (2020 annualized = \$428,937)
- If we do not take action, Miller Dodson forecasts we will need to have reserves of approximately \$1.8 million over the next 40 years to meet all obligations (approximately \$688,000 between 2021-2030).
- Homeowners also have expressed a desire to add new assets and features that were not contemplated by Miller Dodson.





Major Cost Drivers

Project	Approximate Cost	Comments
1. Replace boat ramp and pier	\$50,000 - \$75,000	Some costs shared with marina which reduces the total cost to FCF.
2. Replace pool deck	\$50,000 - \$75,000	This depends on the extent of replacement needed
3. Replace tennis court	\$25,000 - \$75,000	Big factor is if foundation on which court rests is replaced.
4. Refurbished parking lot shared by clubhouse, pool, and marina	\$50,000 - \$100,000	Despite resurfacing we will eventually need to replace the entire asphalt surface



Major Cost Drivers

Project	Approximate Cost	Comments
5. Cherry Tree Lane – repair the bulkhead at cul-de- sac	\$30,000 - \$60,000	Install new rip-rap outboard of existing structure
6. Cherry Tree Lane - Build new trails near shoreline	\$50,000	The land portion that corresponds to work going on now with grant money on shoreline
7. Cherry Tree Lane – replace bulkhead between road and water at "neck"	\$45,000 -\$60,000 (\$420,000 - \$480,000 if FCF Responsibility)	Currently modeled for minor repairs with 15% risk factor Working to decision around what AA County is responsible for versus FCF*

^{*} Please see slide notes section



Major Cost Drivers

Project	Approximate Cost	Comments
8. Cherry Tree Cove – new access to Sandspit	\$25,000	Provide easier access to Sandspit shoreline
9. Crab pier-repair existing and add better access	\$20,000 - \$30,000	Will be achieved by adding 2-3 new timber bents to inboard end of existing structure
10. Service existing storm water management systems	\$25,000 - \$35,000 (leverages AACO work plan)	Current structures are clogged with debris and growth Preventive maintenance program every +/- 5 years
11. Control Southbreeze Beach erosion	\$220,000 - \$250,000	Would try for grant money to supplement; similar to Fish Hook work

Focus Group Question 1 – Project Timing Recommendations

Project	Approximate Cost	< 6 mo.	6 - 18 mo.	18 mo. – 3 yrs.	3 - 5 yrs.	5-10 yrs.	>10 yrs.
1. Replace boat ramp concrete	\$50,000 - \$75,000				С		
2. Replace pool deck	\$50,000 - \$75,000					С	
3. Repair/Replace tennis court (partial/full rehab)	\$25,000 - \$75,000		С				С
4. Refurbish parking lot shared by clubhouse/pool/marina	\$50,000 - \$100,000			С			
5. CTL - replace the bulkhead at cul-de-sac with rip-rap	\$30,000 - \$60,000						С
6. CTL - Build new trails near shoreline	\$50,000					С	
7. CTL - Replace bulkhead between road and water at "neck"*	\$45,000 - 60,000 (\$420,000 - \$480,000)				С		С
8. Cherry Tree Cove – new access to Bridge and Sandspit	\$25,000					С	
9. Crab pier repair and improve access	\$20,000 - \$30,000				С		
10. Service existing storm water management systems	\$25,000 - \$35,000			C		С	
11. Control Southbreeze Beach erosion *	\$250,000		F	Permits	С		

^{*} Biggest cost drivers and biggest range



CapEx 2.0 Methodology & Approach

Asset Priority

1 Most Significant

Critical to Life Safety Serious Risk to FCF if maintenance deferred

2 Very Significant

Substantial Risk if maintenance is deferred, and/or major community asset with high benefit/use to virtually entire community

3 Significant

Moderate risk if maintenance is deferred, and/or asset used by most of community

4 Less Significant

Little risk if maintenance is deferred, and/or appreciated by most members, partial use by most of community

5 Minor Significance

Deferrment does not affect risk profile, and/or affect community quality of life

Repair Urgency

1 Immediate Need - No Delay

2 Repair in 6 Mo. Or less

3 Repair > 6 Mo., < 18 Mo.

4 Repair > 18 Mo., < 3 Years

5 Repair > 3 Years, < 5 Years

6 Repair > 5 Years, < 10 Years

7 Repair > 10 Years

Financial Model Planning Assumptions

- FY 2022 Reserve Replacement Account projected balance @ \$218K
- Funding models commence in FY 2022
- 3% annual operating escalation, not guaranteed, board may decide more/less needed in any given year
- CapEx did not study Waterfront Committee (Marina) reserve status
 - Shared assets (boat ramp & piers)
- Models are based on current assets and projected operational and capital expenses--unforeseen events may impact \$\$\$
 - E.g.: Interest rates, cash flow, major repairs required earlier than planned
- Future boards contribute majority of increases to reserves per plan

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Major Funding Alternatives-Three Proposed Options

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Alternative	Salient Points	Financial Translation
Option 1: "Status quo/Pay as you go" model. Dues to increase up to 10% per year with reserve contribution of @ 8% per year, special assessments as needed in multiples	 Keeps dues low initially Dues need to increase 8%-10-% year/year through 2026 Will result in reserve fund well below 70% of need for 4-5 years Reactive method of planning, does not address long term issues 	 Annual dues rise from \$1748 in 2021 to @ \$2800 in 2026, and @ \$3104 by 2030. Reserve fund is depleted by 2023. Requires special assessment of \$50K in 2022 to prevent a negative balance in reserves* If minimum reserve of \$200,000 desired, additional funding of @ \$573,000 (\$4755/lot) needed through 2030
Option 2: "Hybrid" model. Uses a one time dues increase of 17.5% (thereafter dues increases average 2.4% until 2030), and special assessments are used to fund reserves in high demand years	 Annual dues escalation < 5% for 8 years. 95% of annual increase to reserve. Special assessment in 2022, next special assessments programmed for 6 to 7-year intervals. Reserves maintain minimum of \$200,000 Provides stability & predictability 	 Annual dues rise from \$1748 in 2021 to \$2054 in 2022, rise to @ \$2602 in 2030. Special assessment of \$96,000 (\$800/lot) in 2022 and \$72,000 (\$600/lot) in 2030 Reserve fund is maintained at minimum of \$200,000 and all capital projects performed
Option 3: "Fully funded" model All operating and reserve expenses are funded through the annual dues.	 Dues are sufficient to cover all known needs and not change every year. Most equitable for people coming and going. It avoids surprises. Reserves maintain minimum of \$200,000 	 Annual dues rise from \$1748 in 2021 to \$2622 in 2022, stay flat until 2032 No special assessments forecast Reserve fund is maintained at minimum of \$200,000 and all capital projects performed



Finance Options – Comparisons

	Major Elements	Avg. 5-Yr. Dues (2021-2025)	Avg. 5-YR Special Assess. (2021- 2025)	Avg. 5- Yr. Reserve Balance 2021-2025	Avg. 10-Yr. Dues (2021-2030)	Avg. 10-YR Special Assess. (2021- 2030)	Avg. 10-Yr. Reserve (2021-2030)	Avg. 10-YR Dues (2031-2040)	Avg. 10-YR Special Assessment (2031-2040)
Option 1	Dues increases up to 10% per year, almost every year. Special assessments as required in many years (back\back-back). Reserve funding very low 2021-2029, little cash on hand to meet unexpected capital needs	\$ 2,217.94	\$ 83.33	\$ 123,357.04	\$ 2,617.39	\$ 41.67	\$ 197,486.91	\$ 3,953.02	\$ 150.00
Option 2	A 17.5% dues increase in 2022. Years 2023-2030 require small annual dues increases in selected years Special Assessment of \$800/lot and \$600/lot respectively required in 2022 and 2030. No more through 2032 Reserve fund stays above \$200,000	\$ 2,068.41	\$ 160.00	\$ 273,768.28	\$ 2,261.66	\$ 140.00	\$ 261,662.23	\$ 3,875.31	\$ 125.00
Option 3	Major dues increase in 2022 No Special Assessments ever required Reserve funds stay above \$200,000	\$ 2,447.51	\$ -	\$ 284,674.36	\$ 2,534.92	\$ -	\$ 343,322.71	\$ 3,712.47	\$ 80.00







