

LakeRidge Falls

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Here are the more important stories we had this past and upcoming weeks:

Last Week's Meeting – As some know, last week a special meeting was held based on the request of some residents who asked to “review and discuss all budget expenditures related to all aspects of the remodeling and renovation project.” The meeting was filmed and a link can be emailed to you per request. We invite all residents to watch the video. We can also email a copy of the handout that was given by the Association during the meeting. In it, you will find a complete and a detailed breakdown of the construction and non-construction expenses over the past 4 years (i.e. 2016-2019).

For those who don't wish to watch the video, but nevertheless wish to get an executive summary, I will attempt to answer in great length some of the questions presented in the meeting or brought to my attention by residents in the past few weeks. I chose questions that I believe can help clear some of the confusion or misunderstanding over some of the issues on hand. I say confusion or misunderstanding mainly because it seems some of the questions were based on rumors or misguided information. My attention is not to offend anyone, but simply to clarify these topics. So without further ado, here are questions and answers:

Why the budget for the project went from \$400,000 to \$750,000?

Let's travel back to 2016. If some may recall, the original plan was to develop a long term plan for the amenities. The name given to it was the Unified Vision. The idea was to help consolidate Board of Directors' decisions regarding reserve expenditures with regards to the amenity centers.

As I explained on my Weekly Report on September 23rd, 2016, throughout the years the issue of repairs, replacements, and improvements of the amenities came up as part of the natural course of things. Chairs had to be replaced because they broke, carpets had to be changed because they were old, the interior walls had to be painted because they were faded, curtains had to be updated because the old ones were outdated, etc. Each Board of Directors serving this community made sure such items were repaired, replaced, and/or improved in accordance with what they believed at that specific point in time would best serve the interests of the community as a whole. Unfortunately, there was no real line connecting a decision made in 2008, for example, to a decision made in 2013, again as an example. I can also add that it is even harder to predict code requirements and outdated design themes, i.e. Tommy Bahama, as years go by.

The focus with all reserve studies or reserve fund planning is always on **identifying** the item and then “putting” a **price tag** on it. For example, a few years back the Budget Committee realized that no one took under consideration the flag pole outside the clubhouse. So, they identified the item, a flag pole, researched it, and then estimated it would cost X amount of dollars to replace it when the time comes to do so (i.e. when it rusts away, falls from the wind, etc). They then calculated this figure into the reserve line item of the Amenities Facilities.

The same idea was implemented with the Unified Vision. The idea was to build a unified plan, identifying items such as carpets, windows, doors, painting, kitchen, room configurations, and then “putting” a price tag on the plan. Then the idea was to execute this plan through a course of several years. This would ensure proper financial preparation and a constant theme that future Board of Directors could follow.

During this planning process, many residents wanted to know, rightly so, how much this Unified Vision will cost. As explained in the same Weekly Report mentioned above, no one knew at the time how much it would have cost. After all, the plan was not finalized yet. Simplifying the matter, think about the flag pole example above. How much would it cost to replace the flag pole? If the Budget Committee didn't obtain estimations, no one would have ever known how much money is needed to replace it one day. Now, this notion is pretty trivial for a flag pole and less than trivial when dealing with a reserve line item that is built out of many components, such as the Clubhouse.

Nevertheless, the Board of Directors at the time attempted to answer the question of how much this Unified Vision will cost. So, they started to gather guesstimates from various vendors. However, these were only guesstimates. You see, and **this is the most important point to remember**, in the construction world the client always advises on a budget first. Based on this budget, a contractor provides a plan. Not vice versa. Consider this example to make sense of the above. If you wish to install a new kitchen in your house, the vendor you go to will always ask for your budget. The vendor will never give you a plan for a \$100k kitchen if your budget is only \$20k, right?! However, in the homeowner association world, the requirement is to obtain the plan first before the budget process begins. So, the Board of Directors at the time advertised the cost they were getting based on those guesstimates. I think, nevertheless, that Mr. John Sullivan, LakeRidge Falls Treasurer, answered this question honestly by saying they were off on this figure.

Nevertheless, and fast forwarding to November 2017, the Unified Vision Group, an independent group that was created to develop this plan, handed their final report and recommendations to the Board of Directors. Their report, which can still be found on the Association's website, stated "that based on the overwhelming positive community response..." the Board of Directors should "move forward expeditiously with improvements to the facilities." Their recommendation was based on the feedback they received, the workshops they held, and the surveys they conducted.

On March 2018, the newly elected Board of Directors adopted this recommendation. It took few more months before bids from several contractors were obtained to execute this plan. On August 2018, the price tag of \$750K came about. This should not come as a surprise because there were several reports, workshops, board meetings and a video presentation advertising this figure. At the same time, the decision was to go forward. It is understandable that some may disagree with the decision. However, this was the decision based on what the Board of Directors believed will be in the best interest of the community as a whole. I hope this explains the reason how the figures changed through the years.

What is the real cost of the renovation project?

The answer is simple, \$750,000.

What I would like to address, however, is the term "real" in the question. You see, it implies the \$750k figure is misrepresented and that maybe there is some hidden story behind it. When using such terminology, rumors flourish. I was able to gather three somewhat related rumors, which resurfaced regarding the renovation project costs in the past few weeks. Rumor #1: the renovation project real cost is a million dollar; Rumor #2: unforeseen special assessments are just around the corner; and Rumor #3: the Association would need to increase fees next year because of the renovation.

Now, it is totally understandable to be anxious over financial matters. After all, who wants to pay more on anything in life? It is more understandable when taking into consideration the fear of the unknown. But, please, these are simply just rumors. These rumors reminded me of an old saying my father used to tell me all the time: a stone a kid drops into a well even a thousand wise people will not be able to pull out. Meaning, it is really easy to start a rumor, but it is much more difficult to prove it is untrue. Nevertheless, let me at least try.

Rumor #1: the renovation project real cost is a million dollar.

Some argued that the \$750,000 figure is inaccurate because it failed to include the costs for new furniture, fitness equipment, and pool shades. Therefore, the cost will be \$1,000,000. To be quite honest, this argument is a little bit misleading. Here is why. The \$750,000 figure also didn't take into consideration the replacement of the roof of the clubhouse, the painting of the community walls, and the replacement of the air conditioning unit in the annex building. You see, the renovation project didn't include many items. Does it mean the costs were misrepresented? No. Does it mean the project would cost \$1,000,000? No. It simply means those items were not included in the renovation project. Yes, some of the items above were discussed during the planning phase, but it does not mean the decision was made to include them at this time.

Rumor #2: unforeseen special assessments are just around the corner.

In order to prove this statement wrong, we must understand what a special assessment is all about. Special assessments are needed when an Association does not have the funds to pull from its reserve accounts, for example, for replacing the roofs of its facilities. However and in the case of LakeRidge Falls, this is simply not the case. First, the latest audit by a Certified Public Accountant firm clearly states that the Association has over \$800,000 in reserve funds. Secondly, the Association is fully funding its reserve accounts. What does it mean? It means that the Association is putting aside enough funds each year for all reserve components so when the time comes to repair, replace, or improve these components the money will be there. How can we know the Association is fully funding its reserves? Well, the Certified Public Accountant, who attended the meeting, advised that the Association would need the approval of a majority of all members if it wishes not to fully fund its reserves. Do you recall any request to waive such requirements?! To sum up, the fact the association has over \$800k in reserves and it is fully funding its reserves makes the argument of special assessments a very unlikely scenario. I said unlikely because no one can really prepare for a catastrophic event, such as in a hurricane, which may require such action.

Rumor #3: the Association would need to increase fees next year because of the renovation.

This is not quite how the budget process works. As explained to one of the residents' in a recent email, LakeRidge Falls is a not for profit organization. Therefore, dues are set based on expected expenditures and not based on future goals (i.e. costs first, budget later). Even then, the budget process is dynamic. Therefore, dues would rarely go up, or down, because of one specific line item. Here are is a short hypothetical exercise to emphasize this notion.

The Landscape Company asks the Association for an increase of \$10,000 to their base contract because their production costs, such as gas, went up. Assuming the Association agrees, oversimplifying things, this means that the Budget Committee would need to calculate an increase of \$6.25 in quarterly dues (i.e. 10,000 dollars increase in landscape cost – divide by 399 homes – divide by 4 quarter – equals \$6.25). On the other hand, the Lake Maintenance Company tells the Association at the same time that they can save the Association \$14,500 in service costs because they found a vendor who sells them chemicals for much less. So this means a saving of \$9 or so per homeowner per quarter (i.e. 14,500 dollars reduction in cost – divide by 399 homes – divide by 4 quarter – equals about \$9). Taking into consideration the two made up examples above and assuming those are the only two changes, this means quarterly dues for each homeowner would be reduced by \$2.75.

As can be seen, one line item went up while another went down. What am I trying to say? I am trying to emphasize that dues go up or down based on many variables, not just one. There are no plans at the moment to increase the renovation costs which were set at \$750,000. Therefore, if dues were to go up next year, they will go up because of other variables. However, this is something the Budget Committee will investigate later on this year.

**What is the total amount of the loan, yearly payments, interest rate, and number of years of to repay the loan?
Where does the money come from to pay the loan?**

I wanted to conclude with the bottom line of the renovation costs, because after all there must be a bottom line. So here it is: the loan taken is \$499,095 for ten years. Interest rate is set at 5%. Yearly payments were estimated to be at around \$63k. Payments are coming from operating funds. Please see line item 7890, Loan Amortization, as stated in the approved budget mailed to owners at the beginning of the year. The remaining \$250,000 will be taken from reserve accounts 3600, 3615a, and 3640. The funds are all available.

New Family 2019 - If you didn't see them by now, you are most likely going to see them soon. What I am talking about is the new Sandhill Crane Family that appeared on LakeRidge Falls' grounds a few weeks ago. I wish to thank all those owners who took a moment and shared with us some of the wonderful pictures they took. Below are a few selected pictures. That in mind, please let's welcome this new family in the same manner we welcome new residents. Please make sure to give them some privacy and not get too close. If you are walking your dog, please make sure to hold the dog close to you. And finally, when riding your car or bike, please make sure to be on the lookout and give them the right-of-way when they cross the road or sidewalks. Thanks in advance for your corporation in this matter.



Have a great and safe weekend.

Sincerely,

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