

# Hat Island Community Assn. – FAQ’s

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## *Frequently Asked Questions*

### *Re: 2018 - Proposed Annual Budget*

**November - 2017**

***Welcome to this edition of Frequently Asked Questions (FAQs) addressing some important questions members of the community may have regarding the proposed 2018 budget and assessments.***

These FAQs summarize next year’s 2018 budget recently recommended for adoption by the Board of Trustees of the Hat Island Community Association. This is considered by the Board to be a “lean budget.” Combined Regular and Special Assessments for 2018 total \$1,100 per lot. Funding next year’s budget will once again require the adoption of a Special Assessment. Special Assessments are submitted for approval by the community members. You may have already received a ballot in the mail in connection with approval of the Special Assessment. These FAQs are designed to provide background information relevant to an understanding of how your assessments and other community income will be used in 2018.

**FAQ #1. Let’s start with anticipated revenue side of the ledger for the Association in 2018. What sources of revenue does the Association anticipate in 2018? (As a reminder, the Community has several revenue sources in addition to Regular Assessments and Special Assessments, including revenue for items such as: ferry service, golf, water, moorage, fuel sales, barge use, various fees and similar charges.).**

#### **Income Projected for 2018:**

Regular Assessments	271,400*
Special Assessments	361,100*
Fees and Other Admin Income	31,530
Collection/Past Due Accounts	33,500
Water Income	167,200
Ferry Income	81,000
General Service/Barge	88,750
Golf Income	27,500
Marina Income	100,680
Other Community Income	5,600
Cost of Goods Sold	<u>(117,000)</u> **
Total	1,051,260

\*Regular Assessments and Special Assessment calculations assume that only 575 lots (out of 923 “billable lots”) will pay their assessments in 2018. The community continues to pursue litigation with several delinquent lot owners in efforts to collect past due assessments. These accounts are excluded from projected revenue in the 2018 budget.

\*\*Total income is adjusted with a reduction for the Cost of Goods Sold which takes into account the direct cost incurred to produce items sold by the community such as fuel for the ferry or rental of the barge.

**Note: The Special Assessments represents 31% of the income side of the ledger for 2018.**

**FAQ #2: So, how about expenses. How will the funds be expended in 2018?**

**Generally, community expenses include the cost of operating all island services including insurance, payroll and benefits, ferry operations, golf operations, professional services, maintenance costs of roads and other community assets, taxes and utilities (to review the detailed list please refer to the proposed budget). In addition, the Community maintains reserve funds to fund anticipated capital costs.**

**The total amount of operating expense anticipated in 2018 is \$921,833.39. In addition to these operating expenses, the Community anticipates setting aside \$101,430 for Capital Reserves and \$27,800 for Water System Reserves. Here is an overview of how that amount will be expended if the proposed Special Assessment is approved.**

**Expenses Projected for 2018:**

Operations	921,833
Capital Reserve	100,883 (same as prior year)
Water Reserve	27,800 (same as prior year)
<b>Total</b>	<b>1,050,516</b>

**FAQ #3: The Special Assessment provides a substantial part (nearly 31%) of the amount necessary to operate as planned in 2018. Remind me, why is there both an Annual Assessment and a Special Assessment?**

The Bylaws provide for only two types of assessments that can be utilized for the funding the budget: 1. Annual Assessments and, 2. Special Assessments. Importantly, the Bylaws also require that all lots be assessed equally and hence do not allow the Board to allocate the burden based on a perception of relative benefit. Furthermore, the amount of the Annual Assessment is limited (due to applicable law and the language of the Bylaws) to \$472. Consequently, any shortfall in the budget must be supplemented by the Special Assessment. Funding the proposed budget will require approval of a special assessment in the amount of \$628 per lot (making the total combined assessments \$1100 per lot). This is \$100 less than the combined Assessments for last year. The Bylaws require Special Assessments be submitted for approval by a simple majority of the members of the community (See Bylaws, Article VIII, Section 1).

**FAQ #4: While we're on the subject, tell me, when exactly does the Community Association expect members to pay the Annual and Special Assessments for 2018?**

The annual assessment of \$472 is due upon receipt of invoice, but can be paid in four equal quarterly payments according to our Bylaws. And, although many members of the community pay their special assessments in a single upfront installment, other members elect to break their obligation for the special assessment into two equal payments of \$314. For members, the two installments will be due March 31, 2018 and June 30, 2018.

**FAQ #5: OK, I've got the big picture, but let's dig a little deeper. Let's focus on some of the largest expenses. What are the major expense categories?**

(Keep in mind that the Community provides many of the same services provided by a typical city (such as roads and water) and additional services beyond the purview of a normal municipality (such as ferry, golf and marina). Also, while the following are some significant expenses this list is not intended to be complete. Please refer to the official budget for the complete list of expenses).

Some large expense categories include: Salaries and Wages (\$400,527 - - with no increase in staff positions or pay), Repairs and Maintenance (\$195,491), Insurance (\$109,000), Professional Services (\$75,400), Utilities (\$32,462), and State Taxes (\$26,000).

The responsibilities of the community staff are extensive. Responsibilities include administration, operation of the ferry, operation of the water system, operation of the marina, operation of the golf course, maintenance of the roads and other community assets.

**Let's take a look at a comparison of the amount budgeted in 2017 and 2018.**

	<u>2017 Budget</u>	<u>2018 Budget</u>
Salaries and Wages	390,950	400,527*
Repairs and Maintenance	109,700	195,491**
Insurance	100,000	109,000
Professional Services	117,400	75,400***
Utilities	31,500	32,462
State Taxes	28,500	26,000

\*Does not include payroll taxes or benefits.

\*\*This category includes increases for community water, ferry maintenance, drainage plan, community general area and amounts to fund the interest and principal on the remaining marina loan balance.

\*\*\*includes 38,000 for an outside bookkeeper, 4,500 for CPA services, 25,000 for legal, 2900 for Reserve Study consulting services and 5,000 for Professional Building/Contracting services. = \$75,400

**FAQ #6: Tell me, how assessments are apportioned among the lot owners? Also, what happens when owners who do not pay their assessments?**

Pursuant to the Bylaws, all island lots are billed equally for both annual and special assessments. Assessments are billed equally to lot owners without regard to whether a lot is improved with a home or otherwise. In order to generate the funds to meet the proposed budget for 2018, it will be necessary to approve a special assessment totaling \$361,100. Experience from recent years indicates that only 575 lots (out of 923 "billable lots") can be counted on to pay their assessments. This means that the

Community cannot count on the participation of lot owners owning 348 lots (or about 37% of the total). While there are 30 to 35 separate lot owners in this delinquent group the majority of these lots are owned by related entities which are controlled by a single person. The Community has been diligently pursuing its legal claim to exercise its right of foreclosure for a major part of these past due assessments and expects to complete the pending foreclosure lawsuit sometime in 2018. However, even if the delinquent lots are foreclosed there is no guarantee that payments will be brought current.

It is HICA's policy to vigorously pursue collection of delinquent assessments. The community adds late fees and interests to the amounts charged.

Consequently, to keep the provision of services at their current level for 2018 the amount needed to be allocated to each of the "paying lots" for the Special Assessment is \$628. Adding the Special Assessment to the Regular Assessment of \$472 results in a total obligation to "paying lot" owner for 2018 of \$1100.

**FAQ #7: How exactly does the failure of some owners to pay their assessment effect my obligation for the Special Assessment?**

Simply put, failure for some lot owners to pay their assessments shifts the burden to owners who pay their assessment. If all lot owners could be counted on to pay their fair share, the special assessment would be only about \$391 - - instead of \$628. As they become delinquent, unpaid assessments become receivables on the books of the Association.

**FAQ #8: What if the Special Assessment is not approved by the community?**

Approval of the Special Assessment keeps basic services at approximately their current level. Failure to approve the Special Assessments will result in a substantial elimination of services for 2018. In that case total assessments would be reduced from \$1100 to \$472 per lot. The budget for 2018 would be reduced by about a third resulting in a drastic curtailment of important services. Ferry related expenses, personnel, golf course maintenance, and road maintenance would be most noticeably curtailed.

**FAQ #9: Where I can get more detail about the proposed budget?**

Members can find the proposed budget online at [www.hatisland.org](http://www.hatisland.org).

**FAQ #10: OK, I see where funds are expended for operations. But, what about the remaining balance of the funds?**

In addition to the anticipated operating expenses for 2018, the proposed budget anticipates adding \$101,430 to the Capital Reserve Fund (approximately the same as last year), \$27,800 to the Water Reserve Fund.

**FAQ #11: Tell me more about reserves.**

The community maintains several types of reserve funds funded by Regular Assessments and Special Assessments. The most significant of these is a Capital Reserve Fund. The Capital Reserve Budget was developed with the guidance of industry professionals (CEDCORE, LLC). The Capital Reserve Budget has determined that major repairs and replacement of capital assets (equipment, buildings, and infrastructure) will require a total future capital reserve of approximately \$1M (the actual projected

balance changes each year due to inflation and other considerations). While it will take many years to build the recommended capital reserve, the budget for 2018 allocates \$101,430 for contribution to this reserve fund. Cash reserves have been fully funded allowing some allocation of the 2018 budget to be allocated to interest and principal on the marina loan.

**FAQ #12: Where can I find out more about the Capital Reserve?**

The 2016 Reserve Study prepared by CEDCORE LLC can be found online in the document library at [www.hatisland.org](http://www.hatisland.org).

**FAQ #13: What other financial needs are looming in the future?**

In 2006 the community voted to expand and improve the marina. Funding for this project came from assessments dedicated to the marina and from the proceeds of a loan. Marina Expansion Assessments will cease in 2018 leaving the community with the challenge of dealing with a substantial remaining loan balance. While the marina loan runs through 2023 it is important to the community to adopt a plan for dealing with this obligation as soon as possible. The community settled a dispute with a major property owner several years ago that provides the community with \$10,000 per month dedicated to marina loan obligation. During the 2017 fiscal year, the Community Association elected to pay down the marina loan by the sum of \$67,556. At the current time the Association is exploring the possible refinance of the remaining loan balance to extend the loan due date to give the Association additional flexibility. The Board has decided to make provision for making principal and interest payments from revenue. The underlying concept supporting this approach is to have the marina pay for itself. In this regard recall that projected marina income for 2018 is \$100,680.

**FAQ #14: Tell me how was the proposed budget for 2018 developed?**

The budget was initially developed by the Finance Committee. Members of the Finance Committee were appointed by the President of the Board of Trustees. Committee members bring a diverse background (generally in business, finance and accounting) to the committee. Meeting regularly over the course of several months the committee developed a proposed budget for the coming year. Their work was assisted by island management and members of the Board of Trustees. Each line item of the budget is examined by the Committee. After reaching consensus, the proposed budget for 2018 was submitted to the HICA Board of Trustees for consideration, modification, and eventual approval. These meetings of the Board of Trustees are open to all members of the association.

**FAQ #19: Where do I go for more information or the answers to questions that I might have?**

Your interest is appreciated and you can find detail regarding the proposed budget on our website at [www.hatisland.org](http://www.hatisland.org).

**Also, if you have questions direct them to [HICFAQ@gmail.com](mailto:HICFAQ@gmail.com). Please do NOT send any requests for information to the personal or business e-mail addresses of the members of the Board of Trustees or members of the Finance Committee. Thank you in advance for your input!**