

Reserves Sub-Committee
DC Ranch Budget & Finance Committee

**DC RANCH
NEIGHBORHOOD RESERVES**
Status & Recommendations

Jon Dubauskas
David Peterson
Dave Underwood, CFA
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To: DC Ranch Association Board
DC Ranch Association Executive Director

From: DC Ranch Finance Reserve Subcommittee
Jon Dubauskas
David Peterson
Dave Underwood, CFA

RE: Reserve Funding Recommendations

EXECUTIVE SUMMARY

The Reserves Sub-Committee of the DC Ranch Association (“DCRA”) Budget & Finance Committee, spearheaded by Sub-Committee members Jon Dubauskas and David Peterson, both volunteers, have been engrossed over the past five months in a thorough examination and analysis of the status of DCRA neighborhoods reserves. They are delving into the respective balances, rates of reserves funding, and the categories and various items for which the reserves target, along with the underlying assumptions for when, in the future, portions of these reserves are spent.

The Reserves Sub-Committee focused largely on the DCRA intra-neighborhood roads – their maintenance, repair and reconstruction. After going over the road reports with Frank Civil – the Committee offers here some preliminary observations and recommendations.

Key Observations:

Some neighborhoods are underfunded, becoming more so as the result of needed changes to the reserve funding assumptions, especially those assumptions for road maintenance and repair costs and road replacements.

- DCRA must take a more pragmatic, thoughtful approach for inputs into the analytical system used to account for and to estimate future reserves. Currently, this is the PRA System.
 - Many assumptions are questionable; others require more analysis.
 - Staff, Sub-Committee and neighborhood representatives need to extend their discussions for situations in which reserves funding face current/future challenges.
 - Management needs to allocate more staff or staff time to analysis of DCRA reserves.
- The Board needs to continue study and consideration into 1H2025 of funding solutions for intra-neighborhood roads repair/maintenance and reconstruction.
- There is currently no desire by residents to support a special assessment to cure the underfunded status of the reserves. Alternative strategies are currently being pursued, i.e., increased reserve contributions and delayed road reconstruction projects. This has been reflected in the 2025 budget.
- Further exploration of some form of consolidating the administration of neighborhood roads, including gauging and obtaining support at the resident level.

- Continue and accelerate seeking ancillary sources of revenue to DCRA that supplement roads reserves assessments, ideally the initiative to institute a DCRA fee on the value of real estate transactions taking place within DC Ranch.

DCRA NEIGHBORHOOD RESERVES STATUS & RECOMMENDATIONS

Background:

The DCRA Reserve Sub-committee over the past few months has had conversations with Meghann Hill prior to her departure from the DCRA, several neighborhood NVMs, and Michael Frank from the Frank Civil Consulting group around the roads. The timeframe for this work and the resources available has not been sufficient to work through all issues that have popped up nor all the ideas that have been on the table for changing the funding approach. Some neighborhoods are underfunded and have become more underfunded based on the changes need to the reserve funding assumptions especially around road cost assumptions and road replacement timing assumptions. The current PRA System (which is the current software utilized for DCRA reserve modelling) assumptions utilized by DCRA Finance are questionable and require more time and a dedicated resource in the vacant position as well as there needs to be more time to have discussions with each neighborhood and the sub-committee when faced with an underfunding and lack of sufficient cash flow at the neighborhood level especially in the face of the results of the recent road consultant study and recommendations.

Some funding solutions such as consolidating all neighborhood roads under the DCRA Master require more work than what is allowed in calendar year 2024 to work through all the discussions on what it means, acceptability, adjustments, and of course the necessary votes to achieve that outcome. It is recommended that this work continue in 1H2025 to be well positioned for 2026 and forward. Acceptability by all neighborhoods is critical and the concept of what is fair needs to be debated and agreed before moving on. Maybe this can all be resolved before the 2H2025 budget season to have this revised approach be implemented for 2026.

Another funding proposal is to institute a fee based on real estate sales transactions within DC Ranch to fund roads requires much more work than what can be achieved in 2024. Even if this solution were to be an acceptable and agreed upon path, the cash flows generated would not start right away but would show up throughout the year. It is recommended that those discussions continue in 2024 and 1H2025 to understand if it is not only viable but approved by all of DC Ranch before assuming it can be used to offset current funding sources. Also, the concept of distribution and fairness of distribution needs to occur and be accepted by all neighborhoods, and this will take some time to discuss. If this solution can be resolved before the 2H2025 budget season, then the 2026 budget approach could be revised.

The reserve process the past few years has typically been rushed without adequate time to review and question all inputs for reasonableness and completeness. Some inputs are noted as conservative and should be reviewed for historical reasonableness such as interest rate assumptions. Some inputs are noted as aggressive and should be reviewed and discussed such as past service date inputs in PRA for roads.

When the roads get replaced, they should also consider any possible landscape changes as recommended by the road consultant to help prevent accelerated wearing in those areas. However, this path may come with a landscape bill and park reconfiguration that may or may not be desirable. Other

options may exist that should be discussed in the 1H2025 with DC Ranch landscape management present.

Specific Recommendations:

The Reserves Sub-committee of the DCRA Budget & Finance Committee should work with a newly hired DC Ranch reserve analyst (DC Ranch replacement for the Meghann Hill vacancy) and each of the neighborhood NVMs to fully discuss all reserve items, their expenditure timing, cost, monthly neighborhood reserve contributions, special assessments, if applicable and especially the timing of any near-term road work by the end of 1Q2025.

The DCRA Reserve Sub-committee and the DC Ranch finance reserve analyst should review historical investment yields and historical inflation rates for reasonableness.

The DCRA Reserve Sub-committee and the DC Ranch finance reserve analyst should review the costs that have been input for all items and validate that they are reasonable. Most importantly, the road cost inputs should be validated with the current road consultant reports and input. For example, current PRA inputs are \$1.88 per square yard for sealcoats and \$2.86 per square yard for Pavement Repair/Crack Fill/Sealcoat. A comparison of actual item costs to forecasted costs should be performed to validate the accuracy of prior forecasts and adjust accordingly.

The DCRA Reserve Sub-committee, DC Ranch Finance Reserve Analyst, Executive Director, NVMs, and DCRA Board should continue discussions around alternate funding approaches such as 1) all roads consolidated at Ranch Master, 2) real estate sales transaction fee revenue or 3) any other ideas by the end of 2H 2025.

Any outcome of items 1, 2, and 3 above should be worked into the reserve funding process for 2H2025 to support recommendations for 2026 reserve report outs and funding recommendations.

Move forward with the 2025 monthly neighborhood reserve contribution recommendations as well as the 2025 road service work recommendations for each neighborhood as indicated below in Figure 1. Specific neighborhood commentary has been provided, as well, in the Appendix that follows the Summary Recommendations chart.

Figure 1 - Summary Recommendations Chart

Summary Recommendations (Reserve Contributions)

Neighborhood	Units	DCRA	Reserve	2024 Reserve	+/- \$	+/- %	Total Annual	Special Assessment
		Proposed	Sub-committee					
		2025 Reserve	2025 Reserve				Adjustment	Per Unit
Ranch Master	2,888	7.50	7.50	6.50	1.00	15.38%	34,656	
Desert Haciendas	87	80.00	100.00	75.00	25.00	33.33%	26,100	Consider
Terrace West	74	69.00	70.00	59.50	10.50	17.65%	9,324	-
Park & Manor	165	57.00	65.00	53.00	12.00	22.64%	23,760	Consider
Country Club	568	50.00	55.00	47.25	7.75	16.40%	52,824	
Estates	111	35.00	50.00	32.00	18.00	56.25%	23,976	Consider
Terrace East	77	55.00	65.00	51.00	14.00	27.45%	12,936	Consider
Rosewood	34	78.00	78.00	73.00	5.00	6.85%	2,040	
Camelot	166	53.00	55.00	50.00	5.00	10.00%	9,960	
Haciendas	89	38.00	60.00	35.00	25.00	71.43%	26,700	Consider
Market St. Villas	90	291.00	272.00	264.60	7.40	2.80%	7,992	
Montelana	46	53.00	59.00	49.50	9.50	19.19%	5,244	
Windgate	382	90.00	90.00	86.00	4.00	4.65%	18,336	
Arcadia	123	148.00	142.00	137.00	5.00	3.65%	7,380	
Horseshoe	300	55.00	55.00	50.40	4.60	9.13%	16,560	
Sterling	16	39.00	87.00	36.25	50.75	140.00%	9,744	
Pioneer	49	43.00	43.00	42.00	1.00	2.38%	588	
Legacy @ DCR								
Total	5,265	37.02	38.74	34.23	4.56	13.32%	288,120	-
Total by Year		2,339,112	2,450,652	2,162,532				
Change 2025 - 2024		176,580	288,120					

Figure 1 - Summary Recommendations Chart, cont.

Summary Recommendations (Road)

<u>Neighborhood</u>	<u>Road</u> <u>Comments</u>
Ranch Master	N/A
Desert Haciendas	Delay road to 2028?
Terrace West	Delay road to 2028
Park & Manor	Delay road to 2028?
Country Club	All 2025 road work?
Estates	2025 Maintenance
Terrace East	Delay road to 2028?
Rosewood	2025 Maintenance
Camelot	2026 Maintenance
Haciendas	2026 Maintenance
Market St. Villas	2025/2026?
Montelana	2025 Maintenance
Windgate	All 2025 road work?
Arcadia	2025 Maintenance
Horseshoe	All 2025 road work
Sterling	N/A
Pioneer	2025 Maintenance Only No Reconstruction

Appendix: Specific Neighborhood Commentary

Ranch Master:

This entity has no roads and is somewhat underfunded. The DCRA staff recommendation to increase monthly funding from \$6.50 in 2024 to \$7.50 in 2025 is prudent and reasonable.

Desert Haciendas:

This is one of the neighborhoods that is underfunded, and the road consultant recommendation is to replace the road in 2025, but the neighborhood does not have the adequate reserves to pay for the reconstruction. A special assessment would be necessary to pay for the road reconstruction within in the next 3 years. This option was discussed with the neighborhood NVM and it was decided that a larger than normal increase to the monthly reserve contribution would be preferable, currently. Additionally, the reconstruction project was temporarily pushed to 2028. Further discussion will take place in 1H2025. It is recommended that the monthly reserve contribution be increased from \$75.00 in 2024 to \$100.00 in 2025 assuming this is still under the 20% overall cap rules. This level is necessary to increase funding and to ensure there is enough cash flow in 2028 to replace the road and avoid a special assessment. Outside of the reconstruction, the road consultant recommends that no additional monies be spent on road maintenance.

Terrace Homes West:

This is one of the neighborhoods that is underfunded, and the road consultant recommendation is to replace the road in 2025, but the neighborhood does not have the adequate reserves to pay for the reconstruction. A special assessment would be necessary to pay for the road reconstruction within in the next 3 years. Discussions occurred with Chris Mullen, the NVM, who has communicated with his neighbors, and they desire a delay in the road until 2028. Like Desert Haciendas, they are willing to provide increased funding over the next few years, but would like to avoid a special assessment. The NVM has agreed to a reserve contribution increase to \$70.00 in 2025 from the current 2024 level of \$59.50. They have an expectation of a larger than normal increase over the next few years as well. They are OK with the current road and are willing to delay until 2028. Outside of the reconstruction, the road consultant recommends that no additional monies be spent on road maintenance.

Park & Manor:

This is one of the neighborhoods that is underfunded, and the road consultant recommendation is to replace the road in 2025, but the neighborhood does not have the adequate reserves to pay for the reconstruction. A special assessment would be necessary to pay for the road reconstruction within in the next 3 years. A special assessment would need neighborhood approval. Further discussion needs to take place in 1H2025, therefore, the recommendation is to increase the monthly contribution from the 2024 level of \$53.00 to \$65.00 for 2025, assuming this is still under the 20% overall cap rules. Further increases will be needed in 2026 and 2027 to get to a sufficient level of reserves to pay for the reconstruction in 2028. Even with this increased funding, it still leaves the neighborhood overall underfunded. The neighborhood could decide to reconstruct the road earlier, however a special assessment would be necessary. Outside of the reconstruction, the road consultant recommends that no additional monies be spent on road maintenance.

Country Club:

Further questions are needed related to the road report specific to Country Club. For instance, why is there \$123K in 2026 related to allowances for unforeseen circumstances on Desert Camp Drive? The number of square yards from road consultant versus the PRA system are different by about 9% and should be reconciled for modelling purposes. This neighborhood is underfunded but has enough reserves for near-term needs. The PRA system is modelled at \$3.50 per square foot on road construction but the road consultant report is around \$4.00 per square foot and this is a significant difference. Once full clarity and a new model is setup it might be that reserves are further underfunded than what appears in the PRA system today. The road consultant is recommending earlier maintenance than what currently exists in the PRA system. Even though modelling is not complete as some questions are still outstanding, it seems prudent to increase funding from the 2024 level of \$47.25 to \$55.00 for 2025 until further work can be done. The proposed road work for 2024 and 2025 should be reviewed and discussed with the NVM for acceptance before proceeding as it is an acceleration of past assumptions and will negatively impact the reserves.

Estates:

This neighborhood is severely underfunded. Its current 2024 monthly contribution is one of the lowest and is too low for the list of future reserve expenditures. The recommendation is to increase the reserve contribution from the 2024 level of \$32.00 to \$50.00 in 2025 assuming it is under the 20% overall cap. In the near term, additional large increases will be needed, and this should be discussed with the neighborhood in 1H2025. They should proceed with the recommended 2025 road maintenance work as they have the necessary reserves for it. The road reconstruction is not needed until the mid 2030's. However, the neighborhood is severely underfunded and the increase to a \$50.00 monthly reserve contribution is a minimum step, and future funding changes should be discussed in 1H2025.

Terrace Homes East:

This is another neighborhood that is underfunded, and the road consultant recommendation is to reconstruct the road in 2025, but the neighborhood does not have the adequate reserves to pay for the reconstruction. A special assessment would be necessary to pay for the reconstruction within the next 3 years. A special assessment would need neighborhood approval. Further discussion needs to take place in 1H2025, therefore, the recommendation is to increase the monthly reserve contribution from the 2024 level of \$51.00 to \$65.00 in 2025 assuming this is still under the 20% overall cap rules. Additional increases will be needed in 2026 and 2027 to get to a sufficient level of reserves to fund the reconstruction. Even with this increased funding, it still leaves the neighborhood overall underfunded. The neighborhood could decide to reconstruct the road earlier, however a special assessment would be necessary. Outside of the reconstruction, the road consultant recommends that no additional monies be spent on road maintenance.

Rosewood:

This is a relatively new neighborhood, however, the inputs into the PRA system seem questionable and should be reviewed and discussed further with the DC Ranch Finance Reserve analyst to understand what the true funding level is. The DCRA staff recommendation to increase the reserve contribution from the 2024 level of \$73.00 to \$78.00 in 2025 seems reasonable for now but all inputs should be reviewed in 1H2025. The neighborhood has adequate reserves for the recommended 2025 road maintenance, and they should proceed.

Camelot:

Parameter input review and changes have this neighborhood underfunded a bit more than what is within the PRA system and should be reviewed further with the DC Ranch Finance Reserve analyst. As a result, our recommendation is to increase the monthly contribution from the 2024 level of \$50.00 to \$55.00 in 2025. The road consultant's recommended 2026 road maintenance work should proceed as the neighborhood currently has adequate reserves.

Haciendas:

This neighborhood current contribution level is insufficient to prevent underfunding in future years. All PRA system inputs should be reviewed with DC Ranch staff. The road consultant recommends a reconstruction for 2029 even though the neighborhood was constructed in 2003. If the road is to be replaced in 2029 then much more funding is needed, and this should be discussed in 1H2025. Our recommendation assumes a road reconstruction in 2033. Our recommendation is to increase the reserve contribution from a 2024 level of \$35.00 to \$60.00 in 2025 assuming this is still under the overall 20% cap rules. The neighborhood should proceed with recommended 2025 road maintenance work since adequate reserves exist.

Market Street Villas:

This neighborhood is currently underfunded but has an adequate reserve contribution rate to improve the percent funded over time. The neighborhood and the NVM had extensive discussions and proposed a monthly reserve contribution of \$272.00 for 2025. This seems reasonable and prudent. This is less than the DCRA staff proposed amount but is acceptable. The road consultant proposed three roads to be reconstructed in 2025 and three roads to be reconstructed in 2026. This should be discussed, to determine if the phased work is prudent or if replacing all the roads at the same time is more beneficial.

Montelana:

The inputs in the PRA system seem questionable for this neighborhood and should be reviewed with the DC Ranch Finance Reserve analyst. For example, the current road inputs seem incorrect, which makes the funding appear OK. The Reserve Sub-committee believes that alternate inputs would show this neighborhood to be somewhat underfunded and in need of a higher reserve contribution rate to fund its future expected expenditures. Our recommendation is to increase the reserve contribution from the 2024 level of \$49.50 to at least \$59.00 in 2025. The recommended 2025 road maintenance work should proceed as adequate reserves exist. All inputs and reserve items should be reviewed and discussed with the NVM.

Windgate:

The PRA system currently has 122,047 square yards in roads while the road consultant's 10-yr plan has 178,155 square yards in roads. This is a significant difference and should be reconciled before finalizing recommendations for this neighborhood. In the absence of further information, our recommendation is to accept the DCRA staff change to the reserve contribution rate from the 2024 level of \$86.00 to \$90.00 in 2025. Committing to the road work for 2025 should be delayed until further discussions specific to this neighborhood can occur and more time is allowed to refresh a funding model once discrepancies are resolved. Windgate does have adequate reserves to fund the 2024-2025 road consultant's recommended road maintenance and road reconstruction, so proceeding is low risk, but it is recommended to firm up the model before proceeding so there are no surprises. The proposed road work for 2024 and 2025 should be reviewed and discussed with the NVM for acceptance as it is an acceleration of past assumptions and will negatively impact reserves.

Arcadia:

The funding level is slightly underfunded, but no major issues have been identified. The monthly reserve contribution for 2024 is \$137.00 and our recommendation is to increase this to \$142.00 for 2025 which is less than the DCRA staff proposed amount. The neighborhood has adequate reserves for the 2025 recommended road maintenance work and should proceed with that.

Horseshoe Canyon:

The PRA system currently has 75,457 square yards for roads while the road consultant's report shows 59,870 square yards. This should be reviewed for accuracy. The PRA system has the first road reconstruction occurring on 2033, but the road consultant has 2029 for two parcels. If the roads, in fact need to be reconstructed earlier this will increase the amount of reserve funding needed. Also, the PRA system has much less expenditures in years 2025-2028 for road maintenance than the road consultant's report so additional funding may be needed. Further discussion is needed before we can get comfortable with the reserve model's funding forecast. For now, our recommendation is to accept DCRA staff's proposed increase of the monthly reserve contribution from the 2024 level of \$50.40 to \$55.00 for 2025 until discrepancies can be fully discussed, vetted, and remodeled. Before proceeding on the 2025 recommended road maintenance a check should be performed as to what actual maintenance work has been done for each parcel over the past 4-6 years. Then consider moving forward with the 2025 recommended road maintenance plan as adequate reserves do exist.

Sterling Villas:

Upon review by the Reserve Sub-committee, it was determined that the reserves are severely underfunded. The planned expenditures are roughly 3x the planned contributions. The situation was discussed with Ronald Belmont, the NVM and it was agreed that the monthly reserve contribution should increase from the 2024 level of \$36.25 to \$87.00 in 2025. Also, a somewhat reduced, but large increase in 2026 is expected and will be necessary to shore up reserves. This can be discussed further 1H2025 along with a full item review that should take place prior to finalizing the 2026 reserve contribution amount.

Pioneer:

This neighborhood is in a good percent funded position. The DCRA staff's recommendation to increase the monthly reserve contribution slightly from a 2024 level of \$42.00 to \$43.00 in 2025 is acceptable and reasonable. The road consultant recommends the reconstruction of the entry road in 2025 and maintenance of all other roads in 2025 with reconstruction of all the other roads in 2029. The entry road is very small, seems odd to do this on a different timing than the rest of the roads, and is still acceptable currently to the NVM. The NVM prefers that the roads all be treated the same for consistency and provide maintenance service only in 2025 and do a full reconstruction in 2029 of all roads if that is acceptable to DCRA.