

Date: 4/20/12 (Revised 5-22-12)

This will provide some historical background on our roads, road issues and the pending project to redo a major section of road starting at the front gate. Believe it or not, this is a condensed summary; but it will hopefully provide simple explanations.

Let's start with the basics; because it is necessary to have the basics down to understand the issues we are facing today.

### **The Basics**

Our roads are private (and will always be private), and we will always bear the cost of maintenance. We'll deal with how we pay for maintenance later in this summary.

Our roads are made of concrete, which, if built correctly, last far longer than asphalt roads and require much less maintenance. All else being equal, concrete roads are definitely more desirable. The problem is that they initially cost more than asphalt roads but, in the long run, cost less than asphalt roads due to less required maintenance and a longer useful life.

As an aside, this is the tug of war that all governmental entities face when deciding what materials to use for their roads. If municipalities want to do it right and reduce their overall, long term road building and maintenance costs, they need to spend more up front. But this does not always sit well with their budgets or their taxpayers. If one is able to put cost issues aside, it is almost always better to build roads with concrete; as long as they are built correctly.

What does "built correctly" mean? It means that they are built to good construction standards; which involves the following:

- Adequate subsurface soil compaction
- Sufficient subsurface drainage
- An adequate thickness of crushed baserock under the concrete
- Good quality crushed baserock
- An adequate thickness of concrete
- Good quality concrete.

Cutting corners in any of these areas will shorten the life of the road.

Since being built, our roads have suffered from two problems, one compounding on the other. The first has to do with basic construction. Bottom line, the original developer did not use sufficiently good standards when the roads were built. For example, most of our roads have no crushed baserock. Instead, the concrete slabs sit on compacted soil; sometimes OK soil and sometimes very bad soil. But the condition of the soil really doesn't matter too much. It's just not a good idea to use soil as your base.

You might ask, “How could the developer get away with skimping on the quality and amount of materials? Where was the County Building Department?” I can only speculate on the answer, and I believe it has to do with the fact that the roads are private. For a County to accept the dedication (essentially a donation) of a road and, by definition, to assume the obligation of maintaining that road (which is a huge cost), it must first be built to a “County standard”. Otherwise, the County will not accept ownership. Being private roads, ours were not required to be built to County standards. Most likely, that allowed the developer to cut corners and save money.

So, we have roads that are not as good as they could have been, and there is nothing we can do about that now.

But it was the second problem that greatly compounded the shortcomings in construction; and that was the huge volume of large construction vehicles that have used the roads over the past 10 to 15 years. Heavy trucks wear out roads quickly, and, since they were not of great quality to begin with, they deteriorated even faster than normal.

### **What Have We Done To Date**

Over a number of years, an amount of money has been set aside within the yearly budget to deal with ongoing road repairs. Repairs have been done on an as-needed, patchwork basis. But, given the massive problems with the original construction, this is arguably not the best way to solve the problem.

The only good way to deal with this issue is to rebuild the roads from scratch to acceptable standards. Obviously, this couldn't be done all at once, because the cost would be prohibitive. So, approximately five years ago, the Board decided to set aside money every year into a capital improvement fund (Reserve Fund) with the idea of eventually tapping it to rebuild large sections of the worst roads within the community. Dues were raised accordingly; with the largest increase occurring in 2008. In that year, dues increased a little more than 18%, and the community was promised that future increases would not exceed 4% annually; which has been the case.

Essentially, the sum total of what we pay in dues every year greatly exceeds the actual cost of running the community. This is intentional. Each year, the POA works to what is considered to be a lean budget and puts any surplus collected into the Reserve Fund. For example, at the end of 2010, roughly \$400,000 was put into the Reserve Fund. At the end of 2011, the amount was roughly \$270,000, and the projected contribution for 2012 is roughly \$300,000.

This is very similar to a sinking fund. It has allowed for the steady accumulation of a large amount of funds (over an extended period of time) which will be used to undertake what are expected to be large, costly projects. The only other feasible alternative would have been to assess the community members in one lump sum when the funds were needed; a move which would most likely have received a very negative reaction. Taking it in small portions has arguably made the process of raising the necessary funds easier to handle by spreading the burden over a number of years.

Before going back to the ongoing road work, we need to examine one more aspect of the Reserve Fund.

## **How Much Is In The Reserve Fund Now?**

This is a little complicated, so bear with the explanation.

The total in the Reserve Fund is technically \$1,650,000. But, (and this is a very important “but”), only \$1,300,000 is in cash and available to be used for projects.

The remaining \$365,000 is in the form of a note payable to the POA that is being paid off in annual installments that have eight more years to run.

*We're paying ourselves?? How did this happen?*

Several years ago, the Board decided to build the new POA building. The only money available to build the structure was in the Reserve Fund; which, at that point, totaled something under a million dollars. Instead of borrowing the necessary funds from a bank in the form of a mortgage, it was decided to, in essence, borrow from ourselves through the Reserve Fund. The Board felt that major road expenditures were several years off and that, by that time, the fund (through the yearly contributions) would have enough cash to handle any approved projects.

So, roughly \$500,000 was taken from the Reserve Fund to partially fund the cost of the new POA building. The current balance of that note is approximately \$367,000. Annual amounts of approximately \$45,000 plus interest will be paid for the next eight years to bring the balance to zero. In turn, the Reserve Fund will increase every year by the amount of that payment. The Board felt this method was preferable to obtaining a mortgage and paying interest to a bank.

Let's take this one step further and look at what the balance in the Reserve Fund might be at the end of this year (2012). Start with the current cash balance of \$1,300,000. Add the 2012 yearly payment of \$45,000 on the POA building loan. Then add the budgeted surplus from 2012 operations of roughly \$300,000. This would, hypothetically, give us liquid cash in the Reserve Fund of \$1,645,000 at the end of 2012.

## **So, Now What Do We Do?**

For the last several years a major project has been on the planning agenda; namely rebuilding the road (the correct way) from the front gate to just past Manly (the Front Gate to Manly Project). This long stretch of road has taken a real beating over the years from all the construction traffic.

As part of this project, the Board commissioned an engineering study in early 2011 that was completed that fall. The contracted firm carefully surveyed this stretch of road and used borings to do subsurface exploration. The intent was to determine what we would have to do in the way of construction and drainage work to ensure the road would be properly built. From this study, the preliminary cost estimate for redoing this stretch of road was around \$1.8 million.

Now, let's step back and look at that \$1.8 million estimate in light of repair work done on Walker late last year (late 2011). Failures in that road required several large slab sections to be replaced. Rebuilding was to be done to recommended standards, and this was generally considered something of a test case for the proposed "Front Gate to Manly Project".

However, there were major problems encountered on this small job. Massive drainage problems were uncovered. Wet soil had to be replaced with proper, compacted fill. Remedial drainage work was needed. A larger area of the street had to be replaced. Lastly, repairs were needed to landscaping and driveways adjoining the sections being replaced. In the end, the job took far longer than expected, and the cost of \$180,000 was far higher than expected.

In fact, extrapolating the per lineal foot cost of this small job to the larger, proposed "Front Gate to Manly Project" indicated a cost that was over twice the initial estimates. While there is no certainty that we will run into the same problems encountered on this small job, there is no certainty that we will not.

The next step is to engage a firm to do the engineering design package for the project and to provide updated cost estimates. When the design package is completed, it will be given to contractors and will allow them to bid the job. Once the Board has the bids (which is the real test), it can decide how to proceed.

The Board has been and continues to be concerned both about drainage and other problems that may be encountered plus the logistical problems of building the road while providing access to the community and the homes along the route.

*(Note: At this point, if one reads the update provided in the April Board Meeting summary, it should make sense. But that section is copied here anyway.)*

#### *4-17-12 Meeting Update*

Larry Edwards provided a time line for the first phase of major road works; covering the section of road from the front gate to just beyond the Manly intersection. We are to receive bids from several firms for the engineering design package. These plans should cost somewhere around \$50,000. When completed, the design package will be given to contractors so that they can provide bids on the actual road work.

Expected timing is as follows. Approve a contract for the design engineering package in May. Three months for that study to be completed. One month more for bids; which puts us into October, 2012. Discussed that it was probably not desirable to start construction in the winter, so it would make sense to wait for the spring of 2013; which is the current projected start date anyway.

If the bids come in well over what is available in the Reserve Fund, the Board will have to decide whether to put off the project until the money is available, do part of the project or levy an assessment to cover the shortfall. One Director mentioned that the Finance Committee might look at "alternative funding sources" if it became necessary. *(Editorial Comment: Hopefully, that does not include looking at borrowing money to fund the improvements; which IMHO would be a very bad move.)*