

## HEATHER GARDENS BUDGET & FINANCE CAPITAL FINANCING PROGRAM

### Joint Procedure Memorandum JPM B-2

This Heather Gardens Budget and Finance (B&F) Procedure Memorandum (JPM B-2) replaces PM B-6, Subcommittee on Reserves dated April 11, 2017, which should be removed from your files and destroyed.

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## I. BACKGROUND

- A. The Management Agreement between the Heather Gardens Association (Association) and the Heather Gardens Metropolitan District (District) provides for shared advisory committees to serve both the Association and District Boards.

The Heather Gardens Budget and Finance Joint Procedure Memorandum (JPM B-1), approved by the Association and District Boards, is authorized as a shared advisory committee based on the Management Agreement. JPM B-1 defines the Capital Financing Program and the Capital Program Subcommittee. It also authorizes the Capital Program Subcommittee to assist the B&F Committee in performing its functions. This Heather Gardens Joint Procedure Memorandum (JPM B-2) defines the composition and functions of the Capital Program Subcommittee.

- B. This Heather Gardens Budget & Finance Joint Procedure Memorandum (PM B-2) establishes the composition and procedures used by the Capital Program Subcommittee in making recommendations to the B&F Committee for its recommendations to the Association and District Boards of Directors in the performance of their fiduciary duties to provide and maintain adequate cash reserves to repair, replace and maintain the properties of the Association and the District.
- C. The Capital Program Subcommittee shall be composed of no more than fourteen (14) members: the Association and District Treasurers; one representative each from the Association's Structure Maintenance Committee, Road & Grounds Committee and Long Range Planning Committee; one representative each from the District's Golf Committee, Clubhouse/Restaurant Committee, and Property Policy Committee; two (2) members of the B&F Committee; and up to four (4) additional members/electors appointed by the Chair. The Association and District Treasurers will jointly appoint a member of the B&F Committee to chair the Capital Program Subcommittee.
- D. The Association's Capital Financing Program includes funds for major repair and replacement of resident building components, parking structure components, sidewalks, roads and grounds, and equipment needed to maintain the properties that are the Association's responsibility.
- E. The District's Capital Financing Program includes funds for major repairs and component replacement of the District's property. All District reserves are available for either capital projects or operating needs. However, the District Board of Directors may allocate a portion of the reserves for capital projects.

## II. RESPONSIBILITIES

### A. ASSOCIATION AND DISTRICT BOARDS OF DIRECTORS

1. Operate, preserve, maintain, repair, acquire, and replace common property
2. Determine through capital reserve studies the level of funding needed.
3. Determine and implement various reserve funding sources.
4. Accumulate and invest funds for capital reserves.
5. Comply with governing documents and statutes concerning accumulation of these funds.
6. Educate the community on the necessity of reserves.
7. Include a capital financing amount in the annual approved budgets.

**B. B&F COMMITTEE**

1. Provides advisory oversight of the capital funding programs for the Association and the District.
2. Makes recommendations to the Association and District Boards of Directors regarding funding requirements and sources for capital programs.

**C. CAPITAL PROGRAM SUBCOMMITTEE**

1. Makes recommendations to the B&F Committee concerning:
  - a. Type of reserve studies needed
  - b. How often reserves studies are needed
  - c. Amount of reserves required for current and future needs
  - d. Advice of timing of projects to maintain adequate cash flow
  - e. Equitable methods of funding reserves to meet current and future needs
  - f. Education of owners about the benefits of accumulating funds
  - g. Recommendations for revising the Capital Projects Financing Plan

**D. COMMITTEE SUPPORT**

The Association's Structure Maintenance Committee, Road & Grounds Committee and Long Range Planning Committee and the District's Golf Committee, Clubhouse/Restaurant Committee and Property Policy Committee provide support by recommending the capital project components relative to their functions to be included for capital program funding.

**E. MANAGEMENT**

1. Provides information to the Capital Program Subcommittee relative to Association and District property including:
  - a. Characteristics as defined in Attachment 1
  - b. Questions about project status as outlined in Attachment 2
  - c. Advantages of upgrades or improvements
  - d. Types and costs of reserve studies and software available
2. Acts as resource to the Capital Program Subcommittee relative to permissible activities and funding sources compliant with the Association Declaration of Condominium and Colorado laws for the Association and the District.
3. Maintains records of Association and District property.
4. Maintains software and adds new or sold asset acquisitions
5. Maintains Association and District internal databases for all capital assets. The databases should include capital project component characteristics as defined in Attachment 1 and any other information helpful in maintaining adequate records.

### **III. PROCEDURES**

- A. Initially, the Capital Program Subcommittee will meet as needed to develop the recommended capital project financing plans for the Association and the District.
- B. In addition, after completion of the first capital project financing plans for the Association and the District, the Capital Program Subcommittee shall meet at least twice each year.
  1. A meeting of the Subcommittee will be held in April for the purpose of reviewing the results of prior year projects, reviewing inflation and earning rates, and any recent events that may affect future capital projects. This meeting will review the Management responses to the questions about project status (see Attachment 2).
  2. A meeting of the Capital Program Subcommittee will be held in August of each year (prior to the B&F Committee annual budget meetings) for the purpose of reviewing changes to the component list, inflation and earnings rates, plus recommending the capital reserve fund deposit level and the capital reserve plan update for the coming budget year.

*Jill Bacon*

Jill Bacon, Association President

*Craig Baldwin*

Craig Baldwin, District President

**ATTACHMENT 1****Capital Project Characteristics**

Project Category – Name used to summarize component costs by category

Building/Area Component – Short description of project component or property type

Units - Number of work units in a component (such, as square feet, squares, golf carts, etc.) included in the project component

Cost Year – Year the last cost estimate was prepared

Base Cost - Unit Cost (for the last year unit cost was prepared) x the number of units

Current Replacement Cost – The derived replacement cost for the Analysis Year using the Base Cost indexed for inflation by the difference in the Analysis Year and the Cost Year

Year Done – Last year the component was replaced or installed

Life – Estimated life of the component

Unit Cost – Cost of each unit in a component, such as cost per square foot, cost for golf cart

Condition – Status of project component. Could relate to the number of remaining years of service

**ATTACHMENT 2**

**Capital Project Status Questions**

**Capital Project Financial Plan**

**Monitoring Status Report**

Obtaining responses to these questions aids the Association and the District in assessing the financial status of its Capital Projects Financial Plan. It leads to changes that may be needed before any problems become acute. All answers are based on the Capital Projects Financial Plan, as amended, during budget development. Positive answers to all questions, except #2 and #3, require explanation. Negative answers to questions #2 and #3 require explanation. Insert question responses in the **red** underscores, \_\_, after each question. Where appropriate, add a table to aid in explanations. This list of questions can be used in updating the District’s Capital Projects Financial Plan when it is developed.

1. Has any significant maintenance been deferred that affects the life span of capital components?  
\_\_\_\_\_
  
2. Did annual funding contributions occur as planned? \_\_\_\_\_
  
3. Did expenses occur as planned? \_\_\_\_\_
  
4. Has the reserve balance deviated from the desired goal? \_\_\_\_\_
  
5. Has local pricing or inflation been significantly impacted? \_\_\_\_\_
  
6. Has a significant building code citation been received? \_\_\_\_\_
  
7. Have there been any new mandated changes made to the building codes? \_\_\_\_\_
  
8. Have any major systems or equipment become obsolete? \_\_\_\_\_
  
9. Has there been any extreme wear or tear to major components? \_\_\_\_\_
  
10. Have any major systems or components been added, overhauled, or replaced outside planned actions? \_\_\_\_\_

11. Are any developer, contractor, or critical manufacturer warranties set to expire that affect capital programs? \_\_\_\_
  
12. Are there new technologies or product developments that may affect capital programs? \_\_\_\_
  
13. Have any environmental/geological events occurred that may have a negative impact? \_\_\_\_
  
14. Have there been any significant changes in the community that will affect the capital financing program? \_\_\_\_