

IMPORTANT NOTICE

ASSESSMENT INCREASE FOR 2021

Dear Homeowners,

Over the last few months, your Board of Directors has been working with the Association's management company and General Manager to create and finalize the upcoming 2021 budget, which will go into effect starting January 1, 2021. The HOA budget establishes how much is collected monthly in assessments from every homeowner. That amount is determined by the services that the Association provides and the costs for maintaining our common area and facilities. This process culminated in a four-hour open meeting on September 3rd, where the Board reviewed and discussed each and every line item of the draft budget and then received feedback from homeowners in attendance. The purpose of that meeting was to work through the budget line by line in front of any interested homeowner, and to help demonstrate the Association's true financial position as well as the impact of services provided by the Association related to your monthly assessments. Contracts, historical expenses, and potential future expenses were all considered when creating this 2021 budget.

This document provides a summary of the process for homeowners who were not in attendance at the September 3rd meeting, and includes a detailed look at some of the most relevant budget areas of focus, including a brief breakdown of some items that appear to have been historically under budgeted, a list of previous monthly assessments by year, information regarding the current operating bank account balance, as well as a summary of both national and local fiscal trends that should be taken into consideration when approving a budget.

SUMMARY

The Board's first step of the budget process was to study the Association's past budgets over the last seven years, and to then compare those budgets to what was actually spent over the course of the year. We found that the Association's spending had exceeded overall budgeted amounts for the years 2014, 2016, 2018, and 2019. In 2015 and 2017, spending was under the budgeted amount for the year. Budgets are educated guesses at best, and it is common for expenditures to arise that were not initially planned for. This kind of financial discrepancy is normal and not meant as an indictment to prior Boards who approved those budgets. And, because our Association's operating bank account balance has historically been healthy, it has been possible to keep monthly assessments flat and not raise them due to budget shortfalls for many years.

However, we can no longer continue to rely on an excess balance in our operating account to make up this difference, should spending continue to exceed the budgeted amounts. Since the summer of 2019, our operating bank account balance has diminished. Additionally, overall costs continue to go up – vendors frequently raise their prices annually to keep up with increased costs of doing business, our reserve funding plan calls for a 5% annual increase, utility prices continue to rise – the list goes on and on. We also targeted several specific expenses that seemed to consistently come in over budget, such as water and gas (which together make up more than \$15 of your monthly assessment), and determined to make sizable increases to these categories so that they better match the Association's actual spending over the course of the year.

COWELL HOMEOWNERS ASSOCIATION, INC.

4498 Lawson Ct • 925-687-9961 • businessoffice@walnutcountry.com • www.walnutcountry.com

After a thorough review of the Association's expenses and income in an Open Meeting on September 3rd, the Board of Directors determined that an assessment increase is necessary for the 2021 fiscal year. Effective January 1, 2021, assessments will increase to:

\$103.00 per month

The following pages go into more detail regarding the facts and data that led to the Board's decision to increase assessments for the 2021 fiscal year.

BUDGET UPDATES

A number of factors led to the increase:

- A thorough review identified several budget line items where we were under budget. Some examples are our water bill, where we were budgeting \$90,000 per year but spending approximately \$130,000 per year. Smaller budget corrections also had to be made to areas like trash and garbage and irrigation repairs. By themselves, these above items account for an increase of \$67.51 per homeowner per year, or \$5.63 per homeowner per month, and make up a majority of the assessment increase.
- Historically, our Association has budgeted for revenue we anticipated earning during the next fiscal year. That projected revenue came from things like Clubhouse Rental Income, Signal Advertising Income, Tennis Pro Income, and Violation Fines. This type of revenue is highly variable and typically it is not common practice for HOAs to include this income as a budgeted line item since, even though the income might be expected, it is in no way a guarantee. This current fiscal year, 2020, is an example of why it is best to not count on this income, as the Association's revenue from these sources was significantly reduced. We did not include these projected earnings in the 2021 budget, as we cannot reasonably anticipate when the Association's revenue in these areas will resume and return to normal. While this change does impact the monthly assessments, we believe not including most of this variable income in the budget is the correct decision as it gives the Board and all homeowners a more accurate picture of the Association's finances.
- Increases to our reserve funding are necessary. We are projecting annual increases of 5% to reserve funding over the next decade based on reserve funding requirements per the most recent 2021 Reserve Study. Adequate reserve funding is critical to ensure money is available in the future to update and repair our facilities and equipment when the work is needed, instead of increasing assessments each time a repair or replacement comes due. For reference, below is a list of our annual reserve funding amounts since 2015:

- | | |
|--------------------------|--------------------------|
| ○ 2015: \$295,332 | ○ 2018: \$302,946 |
| ○ 2016: \$284,189 | ○ 2019: \$310,520 |
| ○ 2017: \$295,297 | ○ 2020: \$321,388 |
| | ○ 2021: \$337,457 |

As we have done in 2020, we are continuing our process of reviewing vendor relationships and their associated costs to determine if there are any potential cost savings that can be realized.

COWELL HOMEOWNERS ASSOCIATION, INC.

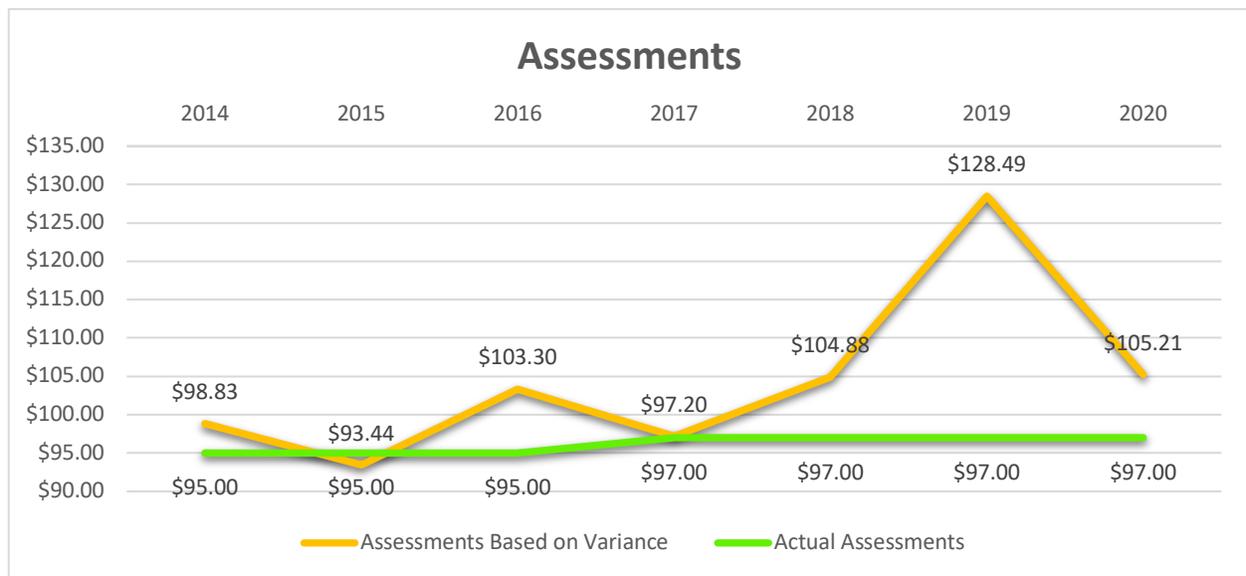
4498 Lawson Ct • 925-687-9961 • businessoffice@walnutcountry.com • www.walnutcountry.com

HISTORICAL ASSESSMENTS

Our last assessment increase was back in 2017 – four years ago. At that time, the increase was only 2%. Below is a historical list of monthly assessment amounts over the last decade:

- 2010: \$95/mo
- 2011: \$95/mo
- 2012: \$95/mo
- 2013: \$95/mo
- 2014: \$95/mo
- 2015: \$95/mo
- 2016: \$95/mo
- 2017: \$97/mo
- 2018: \$97/mo
- 2019: \$97/mo
- 2020: \$97/mo

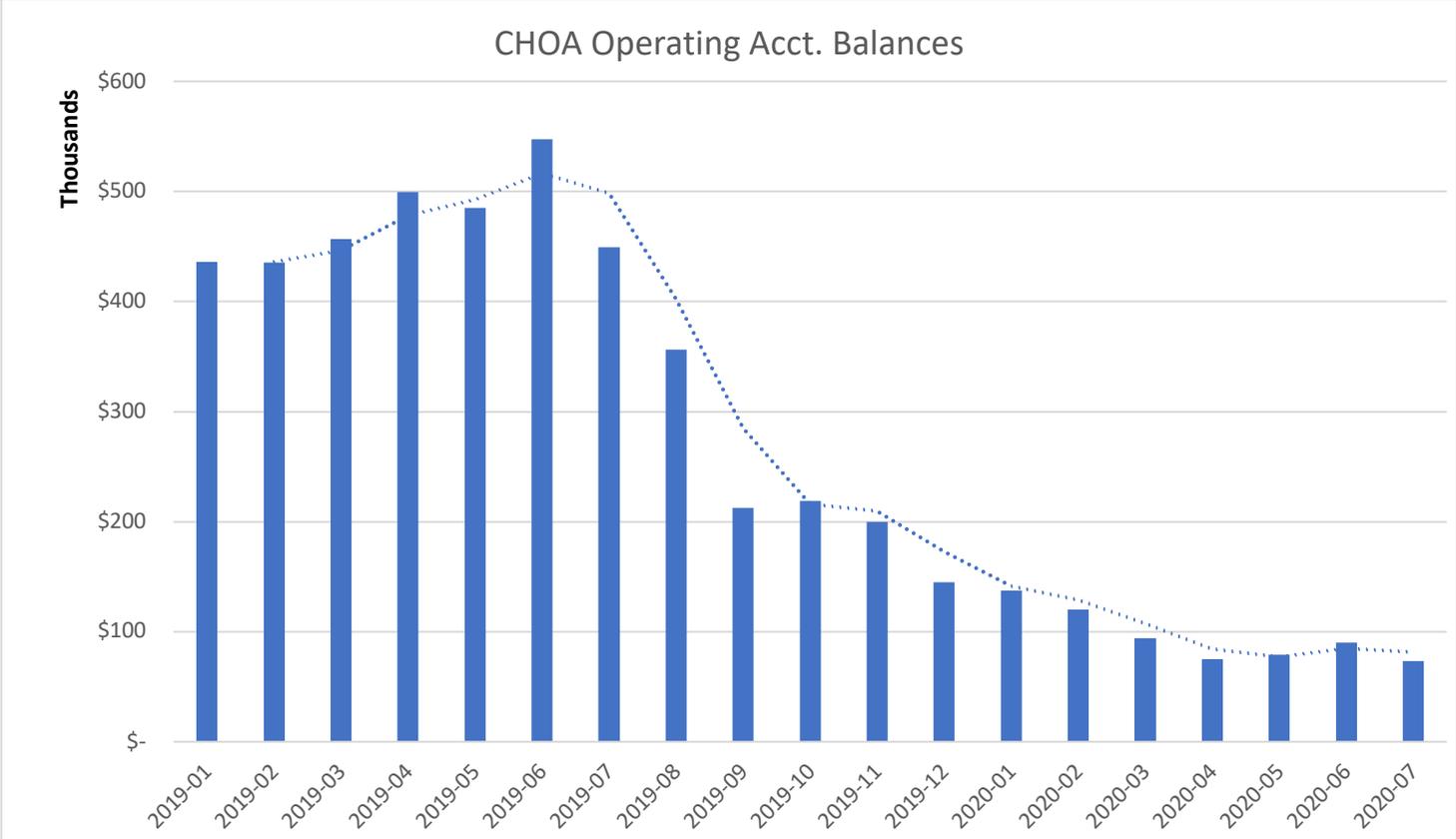
We have also provided a graph below that details the difference between the money collected from assessments and actual expenditures for a given year. The green line represents actual assessments charged; the orange line represents an ideal assessment amount using the actual operating expenses for that year.



Going as far back as 2014, you can see that we have only been “on target” twice (meaning the Association did not spend more money than it collected from assessments), in 2015 and 2017. In 2019, there was a substantial discrepancy between what was budgeted and what was spent. This was largely due to legal expenses, as approximately \$250,000 was spent for the year in this area. The Association is still trying to recoup some of this cost through insurance claims. This expenditure greatly affected our operating account balance.

OPERATING ACCOUNT BALANCE

An additional concern is with our operating account balances. As shown in the graph below, our operating funds have diminished going back to 2019 and continue to do so:



As illustrated above, the account balance dropped significantly during the Summer of 2019 largely due to legal costs associated with litigation. At the time of this writing, we are still awaiting reimbursement for Legal costs from the CHOA’s insurance provider. The amount of legal fees that will be covered by our insurance provider has not yet been finalized.

Now that the operating account balance has stabilized following the 2019 legal expenses, we continue to see a reduction in our operating bank account balance of roughly 8% monthly. This is due to several independent factors, like COVID and the resulting decrease in revenue from items like Clubhouse Rentals, increased expenses such as Pool Monitors, continuously rising costs for expenses like utilities and vendor contracts, and items in the 2020 annual budget that appeared to be significantly underfunded. This, together with the graph in the “Historical Assessments” section above, hopefully illustrates the Board’s opinion that an assessment increase is necessary at this time.

STATISTICAL DATA & TRENDS

A homeowner who works for the Labor Department's Bureau of Labor Statistics was gracious enough to provide some statistical data in relation to the Consumer Price Index increases over the last decade.

"First, there is the Consumer Price Index (CPI). The CPI measures price level changes in goods and services purchased by consumers. This includes such things as food, housing, transportation, apparel, education, communication, medical care and utilities. The U.S. CPI, which measures price level changes in the nation, increased by 18.89% since July 2010 and 8.69% since July 2015. The San Francisco-Hayward-Oakland CPI, which measures price level changes in the San Francisco metropolitan area has increased 31.5% since June 2010 and 16.7% since June 2015, I have included the CPI data for you review as it would represent purchases made by CHOA for CHOA events and chlorine for the pools."

"Second, there is the Employment Cost Index (ECI). The ECI measures the change in labor costs. This includes both wages and benefits. The U.S. ECI has increased 25.9% since the first quarter of 2010 and 13.5% since the first quarter of 2015. I have included the ECI data for you as it would represent changes in wages for the landscapers and business office manager paid for by CHOA."

As outlined above, our assessments have not kept pace with the CPI. Although inflation has been low and is projected to be low for the next few years, costs in our area have increased.

Lastly, interest income is projected to remain at historically low levels. We are currently observing levels fluctuating between 0.05% and (a highly coveted) 0.15% in special savings accounts that we have secured. HOAs can only use government backed, fully insured investments, namely Bank Certificates of Deposit.

CONCLUSION

For all of these reasons, it is necessary that we increase our monthly assessments to ensure financial stability over the coming year. The long-term financial well-being of the Association is a top priority, and the Board believes that this assessment increase to \$103.00/month is in the best interest of the community.

Sincerely,
Cowell Homeowners Association, Inc. Board of Directors

COWELL HOMEOWNERS ASSOCIATION, INC.

4498 Lawson Ct • 925-687-9961 • businessoffice@walnutcountry.com • www.walnutcountry.com

November 2nd, 2020

RE: 2021 Annual Budget Report and Annual Policy Statement

Dear Homeowner(s):

Each year the Board of Directors is required by law to prepare and distribute an Annual Budget Report and Annual Policy Statement for the upcoming year. A copy of these documents and other pertinent information for the 2021 fiscal year are enclosed for your review.

The Annual Budget Report includes a pro-forma operating budget which shows an estimate of revenues and expenses for the upcoming year. Based on this budget, assessments for individual property owners may be subject to change.

The monthly assessment for 2021 will increase to \$103.00 per unit effective January 1, 2021. A write-up going into more detail regarding this year's assessment increase has been included in this packet for your review. If you have any questions regarding why your assessments are going up, we strongly recommend you read this write-up first before contacting management, as we believe it includes helpful information explaining the need for an increase this year.

The Annual Budget Report also includes the following items: Reserve Study (including a summary of current reserves, a funding plan for future reserve contributions and procedures used to calculate reserve requirements); Budget Disclosures (including statements regarding deferral of major component repairs, anticipated special assessments or outstanding loans, if any); Insurance Summary; and Assessment and Reserve Funding Disclosure Summary.

The Annual Policy Statement contains important information pertaining to the Association, including General Information (management company contact information, how members may receive notices and meeting minutes, etc.), Notice of Assessments and Foreclosure, Assessment Collection Policy, Member Discipline and Fine Policy, Dispute Resolution Procedures, Architectural Guidelines, How to Pay Assessments and/or other documents the Board has determined to be appropriate for inclusion.

Any questions about the enclosed documents should be directed to your General Manager, Bill Mazza, at 925-687-9961 or via email at businessoffice@walnutcountry.com.

Best Regards,

Bill Mazza
Cowell Homeowners Association, Inc. General Manager
On Behalf of the Board of Directors

COWELL HOMEOWNERS ASSOCIATION, INC.
2021 Annual Operating Budget
Approved by the Board of Directors on September 3, 2020

OPERATING INCOME	GL Code	2021 ANNUAL	2021 MONTHLY	Per Unit Per Month
ASSESSMENT REVENUE	41100	1,312,632.00	109,386.00	103.00
PRESCHOOL RENT	41165	20,000.00	1,666.67	1.57
WCST MAIN POOL RENT	41169	2,000.00	166.67	0.16
OTHER REVENUE	49000	3,900.00	325.00	0.31
TOTAL REVENUE		1,338,532.00	111,544.33	105.03
OPERATING EXPENSES				
UTILITIES				
GAS & ELECTRIC	54125	65,000.00	5,416.67	5.10
TRASH-DISPOSAL & GARBAGE	54175	8,700.00	725.00	0.68
WATER	54200	135,000.00	11,250.00	10.59
TELEPHONE	54150	5,000.00	416.67	0.39
INTERNET & TV	54252	3,100.00	258.33	0.24
TOTAL UTILITIES		216,800.00	18,066.67	17.01
REPAIRS & MAINTENANCE				
LANDSCAPING CONTRACT	52225	131,000.00	10,916.67	10.28
IRRIGATION REPAIRS	52175	20,000.00	1,666.67	1.57
PLANT INSTALLATION/REPLACEMENT	52200	5,000.00	416.67	0.39
WEED ABATEMENT	52277	4,000.00	333.33	0.31
TREE MAINTENANCE	52275	550.00	45.83	0.04
DOG PARK MTNC/SUPPLIES	52278	2,500.00	208.33	0.20
PEST CONTROL	53420	10,000.00	833.33	0.78
COMMON AREA MAINTENANCE/LIGHTING	53269	10,000.00	833.33	0.78
PLAYGROUND MAINTENANCE	53268	1,500.00	125.00	0.12
GATE/FENCE MAINTENANCE	52241	1,000.00	83.33	0.08
TENNIS COURT MAINTENANCE	53267	7,000.00	583.33	0.55
TENNIS COURT SUPPLIES	52285	1,000.00	83.33	0.08
POOL MAINTENANCE CONTRACT	51150	27,000.00	2,250.00	2.12
POOL CHEMICALS/SUPPLIES	51200	20,000.00	1,666.67	1.57
POOL REPAIRS	51201	1,000.00	83.33	0.08
GYM EQUIPMENT MAINTENANCE	51210	850.00	70.83	0.07
CARPET CLEANING	53110	1,000.00	83.33	0.08
HVAC SERVICE CONTRACT	53321	3,475.00	289.58	0.27
HVAC REPAIRS	53320	3,000.00	250.00	0.24
FIRE SYSTEM MAINTENANCE/INSPECTIONS	53238	2,500.00	208.33	0.20
ALARM SYSTEM MONITORING/MTNC	53100	6,000.00	500.00	0.47
JANITORIAL CONTRACT	53330	4,800.00	400.00	0.38
MISCELLANEOUS REPAIRS	53277	3,500.00	291.67	0.27
JANITORIAL SUPPLIES	53340	3,000.00	250.00	0.24
MAINTENANCE SUPPLIES	53280	2,000.00	166.67	0.16
CLUBHOUSE GAME ROOM REPAIRS/SUPPLIES	51208	200.00	16.67	0.02
LOCKS/KEYS	53370	1,500.00	125.00	0.12
PLUMBING REPAIRS	53440	1,000.00	83.33	0.08
ROOF MAINTENANCE	53451	1,000.00	83.33	0.08
SECURITY CONTRACT	53460	23,000.00	1,916.67	1.80
SIGNS	53480	500.00	41.67	0.04
LICENSE & INSPECTION FEES	51100	2,500.00	208.33	0.20
TOTAL REPAIRS & MAINTENANCE		301,375.00	25,114.58	23.65

ADMINISTRATIVE

MANAGEMENT & ACCOUNTING SERVICES	50450	210,000.00	17,500.00	16.48
MANAGEMENT/ADMINISTRATIVE EXTRAS	50475	2,000.00	166.67	0.16
POSTAGE, PRINTING, & MAILINGS	50600	15,000.00	1,250.00	1.18
COMMON AREA/LIABILITY INSURANCE	50275	54,000.00	4,500.00	4.24
WORKERS' COMP INSURANCE	50273	4,680.00	390.00	0.37
LEGAL FEES	50425	10,000.00	833.33	0.78
LEGAL FEES - COLLECTIONS	50607	2,000.00	166.67	0.16
TAX PREP/ANNUAL TAX REVIEW	50426	3,520.00	293.33	0.28
RESERVE STUDY	50650	2,750.00	229.17	0.22
OFFICE SUPPLIES - ON-SITE	50603	3,000.00	250.00	0.24
PRINTER/INK - ON-SITE	50455	1,500.00	125.00	0.12
COMPUTER MAINTENANCE - ON-SITE	50440	500.00	41.67	0.04
HOA WEBSITE/HOSTING/EMAIL	50725	1,250.00	104.17	0.10
SOFTWARE/WEB SERVICES	50726	5,000.00	416.67	0.39
PERSONNEL ADVERTISING	50604	200.00	16.67	0.02
SIGNAL EXPENSES	50608	8,000.00	666.67	0.63
CLUBHOUSE SUPPLIES	50609	500.00	41.67	0.04
TAXES - FEDERAL	50903	4,000.00	333.33	0.31
TAXES - STATE	50904	2,500.00	208.33	0.20
BAD DEBT EXPENSE	50160	2,000.00	166.67	0.16

TOTAL ADMINISTRATIVE		332,400.00	27,700.00	26.08
-----------------------------	--	-------------------	------------------	--------------

MISCELLANEOUS

LIFEGUARDS/POOL EMPLOYEE PAYROLL	55216	25,000.00	2,083.33	1.96
RECREATION EMPLOYEE PAYROLL	55224	75,000.00	6,250.00	5.89
MAINTENANCE/JANITORIAL PAYROLL	55223	21,000.00	1,750.00	1.65
ASSOCIATION ACTIVITIES & EVENTS	51215	15,000.00	1,250.00	1.18
EMPLOYEE TRAINING	51207	500.00	41.67	0.04
EMPLOYEE SUPPLIES	51209	500.00	41.67	0.04
PAYROLL PROCESSING FEES	55218	5,500.00	458.33	0.43
PAYROLL TAXES	55225	8,000.00	666.67	0.63

TOTAL MISCELLANEOUS		150,500.00	12,541.67	11.81
----------------------------	--	-------------------	------------------	--------------

TOTAL OPERATING EXPENSES		1,001,075.00	83,422.92	78.55
---------------------------------	--	---------------------	------------------	--------------

RESERVE CONTRIBUTION

RESERVE TRANSFER	49010	337,457.00	28,121.42	26.48
------------------	-------	------------	-----------	-------

TOTAL RESERVE CONTRIBUTIONS		337,457.00	28,121.42	26.48
------------------------------------	--	-------------------	------------------	--------------

TOTAL EXPENSES		1,338,532.00	111,544.33	105.03
-----------------------	--	---------------------	-------------------	---------------