



Pecan Plantation Owner's Association

5 Year Operations Assessment Strategy Review

I would like to thank everyone for coming to this town hall meeting tonight.

The issue we will review tonight is important to the future of the Association and will require support from the community.

It is my hope that the information presented will be of value to you and will establish the need to support the Operations Assessment Strategy Proposal

PPOA Operations Assessment Strategy Review

- Purpose of the Town Hall Meeting:
 - Present a proposed 5 year operations assessment strategy for PPOA based on the 5 year Operations Forecast
 - Develop a framework for member questions or comments into the final ballot initiative
 - Solicit membership support to pass the proposed Operations Assessment Plan at the Annual Meeting on March 7, 2009

Tonight we are presenting a 5 year assessment strategy that is different than pass assessment plans. The intent is to match the monthly operations assessment with the monthly cost of operations and only increase the monthly assessment when the actual cost of operations increases. **This approach assumes the community wants to continue the current level of service provided to the membership.**

We will review our 5 year Operations Forecast as the operating model that will be used project and manage the cost of operations going forward.

Second, we want to develop a communications framework which provide member feedback concerning this proposal. The intent is deliberate on the questions and comments we receive from the membership and incorporate those ideas that improve the proposal into the final ballot initiative.

Last, we are asking the membership to support this Operations Assessment Plan by voting for the recommendation at our annual meeting this March.

PPOA Operations Assessment Strategy Review

■ Process Background

– The Board asked the Finance Committee and Management to:

- Review and refine the 5 Year Operating Forecast when considering member growth and increased cost of operation assumptions
- Study, review and recommend an Operations Assessment Plan which:
 - Matches the 5 year forecast
 - Insures funding for current services provided
 - Creates an operating contingency for assumption changes

In August the Board asked the Finance Committee and Management to work together to develop a recommendation for a new Assessment Strategy.

We asked them to take a hard look at the 5 year operations forecast to verify and confirm the assumptions which drive the cost of operations.

I want to stress this work only concerns itself with operations cost and does not address capital needs.

In fact, the Board is currently working on project which addresses the capital needs, which will be presented to the membership in the future.

What did we want to achieve?

1. We wanted an assessment plan that matched our projected 5 year operating cost
- 2. We wanted to protect the current level of services. No new or additional services included in this plan.**
3. We wanted to create a operating contingency for unforeseen cost that can react to changes in the model in a timely fashion.
4. The final result is that management and Board and Management has a published operations model that becomes the benchmark for future operations management decisions.

PPOA Operations Assessment Strategy Review

■ Process Background

- Finance Committee Participants
 - Ron Cotton, Chairman
 - Gary Bailey
 - Dick Brozek , Vice Chairman
 - Billie Henderson
 - Diane Miller
 - Andy Scogins
- Management Participants
 - Michael Bartholomew, GM
 - Bob Osterling, Controller

Here are the teams that worked on this plan and I want to congratulate them on a job well done. I also want to say thank you for your service to this community.

In addition, I would add that all the volunteers who serve this community deserve this same appreciation for all they do to make Pecan Plantation the special place to live that it is.

PPOA Operations Assessment Strategy Review

- 5 Year Forecast reviews were conducted:
 - Member Growth Assumptions
 - Revenue Assumptions
 - Operation Cost Assumptions
- The result of this work is reflected in the recommendation we review today

The teams worked with the Board to review the 5 Year Forecast to insure PPOA is managing our cost of operations in an efficient manner. **We have eliminated cost where possible to make sure we are operating prudently and are only spending Association's money on the services that the community has in place today**

PPOA Operations Assessment Strategy Review

- Types of assessments
 - Capital Asset Reserve Assessment
 - Dedicated Assessment
 - Special Assessment
 - Operations Assessment

I would like to review the 4 types of assessments we currently have in place.

Capital Asset Reserve Assessment

This assessment supports the maintenance of PPOA assets. It is the source of funds that are used to replace and repair buildings, grounds and equipment.

Dedicated Assessments

These assessment are voted by the membership for specific purposes and these funds can not be used for any other reason

Special Assessments

These are assessment voted by the membership which do not benefit PPOA.

Operations Assessment

This assessment is used to run the daily operations of the Association. It is this assessment is the focus of this presentation.

PPOA Operations Assessment Strategy Review

■ Types of assessments

– Capital Asset Reserve is funded by:

- \$ 8 per member per month
- \$ 2858 New Member Initiation Fee
- \$ 714 Membership Transfer Fee

– Capital Asset Reserve Fund

■ Current 2008 YE Balance	\$2.2M
■ Historic Annual Contribution	\$.8M
■ Annual Expenditures	\$.5-.8M

Here is the general information concerning the Capital Asset Reserve.

When you look at your monthly bill you will see the Lot Assessment of \$88.

As indicated on this chart \$8 goes to the Capital Asset Reserve. This allows the Association to maintain our assets in good repair and fully operational.

You will also note that New Member fees and transfer fees also contribute to the reserve account.

Our Fund has a YE balance of 2.2M and has about .8M annual contributions which is driven by member assessment, member turnover and new member growth.

Our annual expenditures vary from year to year based on needs but they have been running about .5M-.8M

PPOA Operations Assessment Strategy Review

■ Type of Assessments

– Dedicated Bridge/Roads Assessment

- Bridge Assessment \$5.75 Per Member/Month
- Road Assessment \$ 10 Per Member/Month
- Road Repair \$ 9 Per Member/Month

– Both the \$5.75 and \$10 Bridge and Road Assessment will sunset in November, 2014

We have 3 Dedicated Assessments that were approved by the membership.
2 of these are specific to repay loans for the bridge and roads

The 3rd is to repair, rebuilding and restoration of the roads.

Please note that the loans are scheduled to sunset in 2014. The association will need to determine what to do when this date is reached. It may be these assessments can be redirected to other needs at that time.

PPOA Operations Assessment Strategy Review

■ Type of Assessments

– Special Assessment

■ VFD/EMS \$ 10 per member lot/month

The VFD/EMS Assessment was approved by membership and PPOA serves as a collection agent for the VFD/EMS. This Assessment does not benefit PPOA operations in any way.

It must be said that the VFD/EMS services are of a great value to the Association and the membership is pleased to serve the VFD/EMS in the collection role.

PPOA Operations Assessment Strategy Review

- **Type of Assessment**
 - **Operations Assessment**
 - **Per member lot/month** **\$80**

- **What cost does this fund?**
 - **Labor**
 - **Operations Expense**
 - **Cost of Goods Sold**

This is the assessment we are reviewing tonight. You will recall that your bill reflects a lot Assessment of \$88. You also remember that \$8 is dedicated to the Capital Reserve Fund.

The remaining \$80 goes to support the operation of the Association. These funds cover the cost of

- Labor
- Operation Expense(Supplies, Material, Misc.)
- Cost of Goods

PPOA Operations Assessment Strategy Review

- **Type of Assessment**
 - Operations Assessment
 - Per member lot/month \$80

- **What services does this fund?**
 - Security
 - Roads/Grounds
 - Stables
 - Facility Maintenance
 - Marina
 - Clubhouse
 - Food & Beverage
 - Inn
 - Member Activities
 - Golf
 - Sports/REC
 - PAC
 - Pools
 - Tennis
 - Administrative Services
 - Communications

Here are the list of the general services PPOA supports.

Each have value to individual members but it is true the value is not the same to each member.

It is the combination of these services that makes Pecan Plantation the value that it is as a whole. I believe there is no other HOA that has the value PPOA has to its members when compared to the cost to its members.

This is a shared benefit community where every member has access to all of the amenities and services, as they choose. The Association leverages each member's contribution to achieve a greater value than they could enjoy as individuals. That is the power of our shared benefit governance model.

PPOA Operations Assessment Strategy Review

Operations Assessment History

	Monthly	CPI Adjusted
1979	\$32	\$ 32
1981	\$41	\$ 39
1984	\$45	\$ 45
1990	\$54	\$ 54*
1995	\$62	\$ 66
1999	\$67	\$ 76
2004	\$80	\$ 93
2008	\$80	\$115

Here is a overview of our operations assessment history.

You can see that the association has a series of increases over time with the last being in 2004.

I also included a CPI adjusted comparison to indicated that the Association has managed to deliver services below the CPI growth while adding new services over the years. This is the result of solid management and membership growth.

It should be noted that beginning in 1990 the Assessment began to lag CPI but member growth increased which allow this lag to not be a major issue.

PPOA Operations Assessment Strategy Review

■ 2009 Annual Cost of Operations

– Labor	\$3,307,868
– OPS Expense	\$1,602,581
– Cost of Goods	\$1,152,371
– Total	\$6,062,820

We will look at the 5 year forecast but

As a point of reference this is the 2009 cost of operations.

This is about \$16,600 per day to operate the association

PPOA Operations Assessment Strategy Review

PPOA 5 Year Operating Forecast

	2009	2010	2011	2012	2013
Revenue	\$6,067,277	\$6,255,209	\$6,454,387	\$6,682,512	\$6,916,261
Expense					
Labor	\$3,339,868	\$3,495,835	\$3,659,295	\$3,830,610	\$4,010,165
OPS Expense	\$1,602,581	\$1,672,243	\$1,744,950	\$1,820,947	\$1,900,271
Cost of Goods	\$1,152,371	\$1,206,032	\$1,263,208	\$1,323,632	\$1,388,238
Profit/Loss	-\$27,543	-\$118,901	-\$213,066	-\$292,677	-\$382,413
Average Annual Membership	2878	2924	2973	3022	3072

Here is the 5 year forecast. You can see based on assumptions in member growth and cost increases of the operations we have a loss year over year if we do not increase our operations assessment.

These assumes that we maintain our current level of service and operate as we are today.

PPOA Operations Assessment Strategy Review

- Remember the mission:
 - The Board asked the Finance Committee and Management to:
 - Review and refine the 5 Year Operating Forecast when considering member growth and increased cost of operation
 - Study, review and recommend an Operations Assessment Plan which:
 - Matches the 5 year forecast
 - Insures funding for current services provided
 - Creates an operating contingency for changes

Remember the Mission

Match the 5 year forecast

Insure funding current services

Create a operating contingency

PPOA Operations Assessment Strategy Review

Recommendation:

Member approval of the 5 year Operation Assessment Plan as follows:

Year	Monthly	Increase
2009	\$83	\$3
2010	\$85	\$2
2011	\$88	\$3
2012	\$90	\$2
2013	\$93	\$3

BOD and Management review Assessment Plan with Members annually to validate assumptions in the 5 Year Forecast

This is the proposed increase plan.

It is a 5 year increase schedule that matches our forecast. It documents a cost of operations plan that is defined for the next five years. It matches increases to when the need is required.

This is different from step plans in the past. The step plan works under the premise that in the early years of the plan cash is accumulated because the assessment is greater than need and that cash funds operations in the later years when need is greater than the assessment.

I must say there is nothing wrong with this approach but it can lead to increased spending in the early years when excess cash is available. This then creates growth in cost of operations which will need to be addressed later in another assessment cycle.

It is not a guaranteed growth tied to CPI although that is a reasonable approach.

The recommended approach is a pay as you go approach and does not allow any anticipate deviation from the plan unless the assumptions have a major shift.

Five Year Forecast

	2009	2010	2011	2012	2013
<u>PROJECTIONS WITH MEMBERSHIP GROWTH</u>					
PPOA/PPCC Annual Profit (Loss)	(27,543)	(118,901)	(213,066)	(292,677)	(382,413)
Assessment Increase (\$80 starting base)	83.00	85.00	88.00	90.00	93.00
Forecasted Membership (6 month lag)	2,878	2,924	2,973	3,022	3,072
Revenue Growth	60,438	175,440	285,408	362,640	479,232
Annual Operating Cash	32,895	56,539	72,342	69,963	96,819
Net Cumulative Operating Cash	<u>32,895</u>	<u>89,434</u>	<u>161,776</u>	<u>231,739</u>	<u>328,558</u>
<u>WITHOUT MEMBERSHIP GROWTH</u>					
Net Cumulative Operating Cash w/o Membership Growth	<u>32,412</u>	<u>84,811</u>	<u>145,825</u>	<u>195,748</u>	<u>258,715</u>

The result of applying the Operating Assessment Plan will generate Revenue growth to cover increased cost of operations over time.

You will note on the Revenue Growth each year creates a positive Annual Operating Cash position. The range year over year begins at \$32,895 and moves to \$96,819 in 2013. This contingency is only 1% which is a very small margin to manage changes in actual cost when compared to the plan.

This Plan will result in PPOA continuing to deliver the services that are in place today and allow the Association to operate on a break even basis

Contact Information

- If you would like to send comments or suggestions regarding this meeting please email to:

BOARD@PPOAWEB.COM

The Finance Committee, Management and the Board would like your feedback on this proposed Assessment Strategy. Please send mails to the noted mail box.

The teams will consider and review your comments. It is our intent to incorporate changes to the final ballot language that improve the Assessment Plan.

Please also plan to attend the M2M Town Hall Meeting at 6:30 PM on January 13, 2009. This will be a time to share your views on this matter with other members.