

BUDGET AND FINANCE COMMITTEE REPORT

FOR THE MAY 21, 2025 DCCE BOD MEETING

The committee met on April 18th. This meeting was held before the results of the DCCE CC&R vote were announced. At the April, 2025 DCCE monthly meeting, a few days before our committee met, it was reported that the results in so far did not indicate the vote was leaning toward approval, so much of the B & F Committee discussion concerned funding options for the Rose Hill Wash work should the measure not pass. Following the meeting some research was done on some of the possible solutions brought up during the brain-storming session.

Part 1 of this report is the minutes of our April 18, 2025 meeting. Part 2 is a report on the follow-up work done.

Part 1.

MINUTES FOR THE BUDGET AND FINANCE COMMITTEE MEETING 4-18-25

Prepared by: Tom Townsend

Attendees: Tom Townsend, Chair, Sue Teaney, Ellen Bussing, Robyn Pitman, Gary Wolfe

1. The state of the 2025 budget and actual YTD and committed expenditures was discussed. The 2025 budget approved by the sub association representatives included plans to use reserves to handle expected cost exceeding 2025 dues revenues, most notably for the Rose Hill Wash engineering project. Some transfers from the General Reserve accounts to the Operating account have already taken place and were needed as expenditures do not have the same timing as the quarterly dues payments. With the cost over-run experienced by the Rose Hill Wash engineering project, and the recent additions to the estimated future costs of the Rose Hill Wash project, DCCE needs to review possible cost savings during 2025 to possibly free up funds for the Rose Hill Wash project. The numbers presented by the Rose Hill Wash committee at the March DCCE monthly meeting came as a surprise to many attending the meeting, ranging from about \$91,000 for just more engineering costs to about \$250,000 for a stop gap measure of engineering and some construction costs done over a 2 to 3 year period. With dues revenues expected to be about \$115,710 for 2025 there is not a lot that could be expected to be cut from other committee budgets for these new cost proposals. Perhaps a meeting with all committee heads should be held to see if any budgeted 2025 operating costs can be postponed to 2026 or later.
2. A brief discussion was undertaken on the effects on the association of AZ HB2442. This bill has passed the AZ House and been sent to the Senate. Should the Senate pass this

bill as written and the bill is signed by the governor, the budgeting process for the association will need to be revised extensively. The individual subs budgeting process could also be impacted.

3. Bearing in mind the high costs foreseen in future Rose Hill Wash projects, a brainstorming session was begun to discuss possible sources of funds or other available options open to the DCCE should the CCR vote not reach the number of YES votes needed to pass by the mandatory end of vote deadline of April 30, 2025. If the CCR measure does not pass, the DCCE Master Assn. will not have the ability to access special assessments. To pay for projects like the Rose Hill Wash projects. The committee is open to all ideas, regardless of the possible limitations or popularity of any individual idea. Multiple ideas might need to be combined to reach a solution. Ideas presented include:
 - a. Each sub-association levy a special assessment on their home owners for the benefit of the Master Assn. Rose Hill Wash project. All subs would have to agree on the amount and timing of payments. The Master Assn. CC&R's currently does not allow the Master Assn to levy special assessments. A \$500 assessment for each of Dorado's 551 homes would raise \$275,000 for repairs and maintenance of the Rose Hill Wash, for example.
 - b. Review the terms of the golf course lease to see if the triple net lease terms would allow the association to bill the golf course a portion of the costs incurred for the Rose Hill Wash project. A request to see the actual golf course lease was made by the committee chair.
 - c. Explore the possibility of renegotiate the golf course lease to receive more than the \$200 per month rent currently paid by the golf course operator, while keeping in mind the rules imposed by the IRS on non-profit HOA's who want to maintain their non-profit status. DCCE could receive about \$70,000 in non-HOA fee income and retain the non-profit status currently held.
 - d. Deed the golf course property to the City of Tucson with a caveat that the property must be used as a golf course for 100 years. Would the city be open to such an arrangement?
 - e. Could DCCE obtain a loan from a bank or other financial institution and at what terms and conditions?
 - f. Would a private investor be interested in loaning DCCE funds and at what interest rate and with what conditions

- g. It was brought up that more ideas might be provided if the brain-storming process were open to a larger group, one example being the subs treasurers and other interested persons within the DCCE population. The chair will explore this idea by bringing up the matter at the next monthly meeting.

Part 2 - FOLLOW-UP

1. One of the possibilities for funding the Rose Hill Wash work was a loan, either from a financial institution or private lender. Using a \$250,000 number provided by Rich Robertson as a bare-bones estimate for construction work (no bids have been received), a table of monthly repayment costs at various interest rates and various loan repayment times was prepared.

	<u>10 years</u>	<u>15 years</u>	<u>20 years</u>
<u>6%</u>	\$2,776	\$2,110	\$1,791
<u>7%</u>	\$2,903	\$2,247	\$1,938
<u>8%</u>	\$3,033	\$2,389	\$2,091
<u>9%</u>	\$3,165	\$2,537	\$2.250

2. The B & F committee was looking at all possible sources of funding and the question arose as to whether the golf course lease might provide some funding. The chair asked to see a copy of the actual golf course lease and was told to contact a former member of the Exec Committee. This person denied the request based on the recommendation of the golf course operator’s attorney – the golf course operator’s attorney - not the DCCE attorney.
3. The chair has a copy of an “Executive Summary” of the golf course lease obtained a few years ago. While reviewing this “summary”, he was surprised to find the lease was not a triple net lease as thought, but an absolute net lease. Researching what an absolute net lease is, it was found that with an absolute net lease, the tenant is usually responsible for not only the taxes, insurance, and maintenance of the leased property, but also

major structural work needed on the property. Another common feature of an absolute net lease is the tenant paying below market rate rent for the property as is the case with the golf courses lease. With an absolute net lease, the tenant assumes major financial responsibilities for the property while the landlord typically has a hands-off relationship with the property.

4. Once the request to see the golf course lease was denied, an email was sent suggesting the DCCE president contact the DCCE lawyer to see if the golf course and Rose Hill Wash are on one deed, if yes, the implications of the absolute net lease on the Rose Hill Wash matter, if the golf course operator's lease includes all land acquired from HSL in June, 2021. Depending on the answer to these first questions, other questions might arise.

5. I would like to know what the criteria is for granting someone permission look at the golf course lease. I am chair of the DCCE Budget and Finance committee trying to determine alternatives to finance a major project, as well as one of the 12 voting members of the DCCE board but I was denied permission to see the actual lease. Also, why is the person making the determination of who can reviews the actual lease a former Exec Committee member and not someone on the current Exec Committee? Finally, why is the explanation for denial to review the actual lease based upon the recommendation of the golf course operator's lawyer? The board and the Exec Committee have a fiduciary responsibility to the home owners of DCCE, not the operator of the golf course.