

**SUN CITY TEXAS COMMUNITY ASSOCIATION**  
**Landscaped Maintained Homes Operating Reserves Policy**

**1. PURPOSE:**

**1.1.** To provide policies and procedures for the management of an Operating Reserve for each Landscaped Maintained Homes Neighborhood.

**2. SCOPE:**

**2.1.** This policy applies only to Landscaped Maintained Homes Neighborhoods.

**3. DEFINITIONS:**

**3.1. Community Association, Association, SCTXCA, or CA:** the Sun City Texas Community Association.

**3.2. Board:** the Sun City Texas Community Association Board of Directors.

**3.3. Landscaped Maintained Homes Neighborhood, Neighborhood, LMHN, or NH:** the Garden and Cottage neighborhoods of 14A, 24A, 25, 30, 24B1, 24B2, and 33 in the landscape maintenance program.

**3.4. Landscaped Maintained Homes Organization or LMHO:** the advisory committee established by the Board to evaluate services, program options, pricing, and policies of the Landscaped Maintained Homes Program.

**3.5. Landscaped Maintained Homes or LMH:** the homes located in the LMHN.

**3.6. Classification of Landscaped Maintained Home or Classification:** the type of homes within the Landscaped Maintained Homes Program, which are Garden and Cottage.

**4. REONSIBILITY:**

**4.1.** The Landscaped Maintained Homes Organization (“Responsible Party”) shall be responsible for reviewing, updating and recommending to the Board changes and amendments to this policy for the Board’s review and approval including answering questions of interpretation.

**4.2.** The Executive Director or other CA staff designee shall be responsible for implementing, enforcing, and administering this policy.

**5. THE POLICY:**

**5.1. Statement:** the Board desires to adopt certain policies and procedures for the management of an Operating Reserve for each LMHN.

**5.2. Background:** One of the functions of the Association is providing for yard maintenance, accounting services, and collecting maintenance fees from all LMH Program homeowners in the community. As established by the Amended and Restated Supplemental Declaration of Covenants, Conditions & Restrictions for Sun City Texas, each LMHN is a separate cost center with all expenses shared equally by each homeowner in a neighborhood. All fees paid by program homeowners and segregated funds remain the property of each respective NH until funds are disbursed to pay for products received or services rendered. The CA administers the program as agent for the LMHNs and is reimbursed for all expenses it incurs providing this service. The NH funds will be maintained in CA bank and investment accounts in accordance with CA operating and investment policies. It is not required that LMHN funds be segregated from other CA deposits; however, the CA will maintain internal records for each NH fund and will reflect the LMHN accounts as liabilities of the CA. The concept is that these are escrow accounts held and managed by the CA for the benefit of each respective

neighborhood. Any income from invested funds should be properly credited to the appropriate LMHN.

- 5.3. Purpose of the Operating Reserve:** the Operating Reserve is composed of three components: 1) the portion providing working capital or money in the bank to cover cyclical operations (cash flow management); 2) the portion providing protection for unplanned natural events or a deficit in operations; and 3) the portion providing protection for predictable future events. The optimal amount needed for the stated purposes of the Operating Reserve for each NH is referred to as the target. It is not the intent of the Operating Reserve target to provide 100% coverage of any and all events that might occur. The target only provides a reasonable probability that the Operating Reserve would be sufficient to absorb most events that may occur. Any shortfall in coverage remains the responsibility of homeowners within each neighborhood.
- 5.4. Source of Funds for the Operating Reserve:** the Operating Reserve for each neighborhood is the accumulated surpluses and deficits of past and future financial operating periods for each respective neighborhood.
- 5.5. Operating Reserve Target:** the target shall be determined each year as part of the budget process. The reserve target for the first two components can be calculated by centering on those expenses that are cyclical and those expenses with the highest risk of running substantially over budget due to the LMH Program policy of not deferring maintenance. In normal circumstances, the target will be determined using those two components. In situations where it can be reasonably predicted that a NH will experience unusual expenses in future years, the third component of the target can be included so funds needed for the predicted event will be available at the appropriate time and the fees can be leveled out over several years. Refer to Appendix A for the reserve formula.
- 5.6. Operating Reserve Below Target:** during the annual budget process, each NH's projected end-of-year Operating Reserve will be analyzed. If the projected balance is below 50% of next year's target, fees will be increased with a goal of reaching the target over the next two to three years. If the projected balance is at 50% or more, but less than target, monthly fees will be increased with a goal of reaching the target within one to two years. If the Operating Reserve for a neighborhood is a deficit **at any time**, the homeowners in that NH will immediately receive a bill due in 30 days for the deficit PLUS 40% of the target. *NOTE: if the Operating Reserve is a deficit, it means that NH has NO FUNDS to pay for its expenses. The payment of expenses for any NH must come from fees paid by homeowners in that NH. There is no other source of funds. The deficit also means that there has been some significant event causing substantial expenditures in excess of the budget AND the use of all the Operating Reserve. The closer a NH is to its Operating Reserve target at the beginning of a year, the less likely this will occur. Refer to paragraph 5.3, Purpose of Operating Reserve.*
- 5.7. Operating Reserve Above Target:** during the annual budget process, each NH's projected end-of-year Operating Reserve will be analyzed. If the projected balance is above its NH or Classification target for next year (the greater of the two), fees will be decreased with a goal of reducing the Operating Reserve to the higher target over the next one to three years.

## 6. REFERENCES:

- 6.1. None

## Policy Approval and Tracking Information

<b><u>Policy #</u></b>	<b><u>Title</u></b> Policy for Managing Operating Reserves for Landscaped Maintained Homes Neighborhoods
<b><u>Responsible Party</u></b> Landscaped Maintained Homes Organization	<b><u>Frequency of Review</u></b> Every 5 years following approval of initial creation or modification.

### BOARD APPROVAL

Signature	Title	Date
	Board President	11/18/2021

### REVISION RECORD

Rev.	Date of Board Approval	Change Description
0	02/24/2011	Policy Creation.
1	08/17/2015	Policy update with more accurate reserve calculation and improved clarification. Addition of Appendix A and B.
2	09/01/2016	Deletion of Classics as they have all been disengaged.
3	11/08/16	Appendix A Revised, Appendix B Deleted
4	11/18/2021	Renamed group Organization from Committee

## APPENDIX A

### FORMULA FOR CALCULATING THE OPERATING RESERVE TARGET

#### Timing (Cash Flow/Working Capital) Component:

Proposed Trees & Plants Budget X 17% + <sup>1</sup>

Proposed Sod Replacement Budget X 25% + <sup>2</sup>

Proposed Tree Trimming Budget X 7/12. <sup>3</sup>

#### Highest Risk of Exceeding Budget Component: <sup>4</sup>

Proposed Repair and Maintenance of Sprinklers Budget X 50% +

Proposed Drainage & Top Dressing Budget X 50% +

Proposed Trees & Plants Budget X 50% +

Proposed Sod Replacement X 50% +

Proposed Tree Trimming Budget X 50%.

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<sup>1</sup> Assuming 67% of trees & plants billed by June; therefore, 17% more than the 50% collected by June.

<sup>2</sup> Assuming 75% of sod replacement billed by June; therefore, 25% more than the 50% collected by June.

<sup>3</sup> Assuming 100% of tree trimming billed by May; therefore, 7/12 more than the 5/12 collected by May.

<sup>4</sup> Based on experience, each of these accounts could run 50% over budget.