

The Supplemental Annual Assessment: Questions Answered

While KICA is currently in a favorable financial condition, the association faces long-term challenges that need to be addressed. That was the message conveyed by the KICA Board of Directors at its Jan. 7 meeting when it unanimously approved a Supplemental Annual Assessment (SAA) for 2013 and proposed a similar SAA for 2014 and beyond (to be included in 2014 budget planning and potentially future years as needed).

The Basics

What exactly is the SAA? The SAA is an addition to the annual assessment of a specific year that may be levied at any time at the board's discretion as long as the annual assessment for that year, and the SAA, do not exceed the Maximum Annual Assessment (MAA) as determined by the KICA Covenants. *(See The Details section for more information on assessments.)*

How much is the SAA going to cost? For 2013, the SAA will be \$150 on "improved" (i.e. developed) properties and \$75 on "unimproved" (i.e. undeveloped) properties.

When will SAA payments be due? Since this will be an unbudgeted expense to members, the board wanted to give members sufficient time to plan and prepare for the SAA. Therefore, the 2013 SAA will be billed in June and due within 30 days of receipt.

Does the SAA affect commercial property owners? Yes, commercial property owners benefit from KICA's expenditures, as do all members, and will be assessed the proportionate amount as established by the KICA Covenants.

Will there be SAAs in future years? Based on current projections, future SAAs do appear likely. At its January meeting, the board recommended that an SAA of \$300 be included in the budget recommendation for 2014 and beyond (as long as the board or future boards deem necessary). If included in the budget recommendation, the 2014 SAA would be approved along with approval of the 2014 budget.

The Background

Since KICA finished 2012 with a surplus, why do we need to take action now? In the short-term, due to building sufficient financial reserves and spending conservatively, KICA is in good financial condition. In the long-term however, the association faces financial challenges. Aging infrastructure on the island has increased current and projected capital expenditures, and KICA continues to gain responsibility for additional infrastructure as the island is developed. Also, Contributions to Reserves (CTRs), which come from a 0.5% fee on real estate sales, have declined significantly. With CTRs decreasing

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due to modest real estate sales on Kiawah, and capital expenditures increasing due to aging infrastructure, action needed to be taken to ensure the financial stability of the association.

How did the board determine that the SAA was the best option?

The board's action was the result of a thorough evaluation of future revenue needs and a consideration of alternative approaches to keep the association on a stable financial path. Compared to alternative options, the SAA allows for more effective planning of major capital expenditures and provides greater flexibility to make adjustments should KICA experience changes in other revenue sources or expenses.

How long have the board and KICA been looking at this issue?

This issue dates back as far as 2007, when members of the Finance (FC) and Major Repairs (MRC) committees made a presentation to the board suggesting that major repair and replacement reserves were insufficient to meet future needs. Over the next few years, the issue was studied by the FC, MRC and various task forces, even leading to written recommendations to the board for special and/or capital assessments of around \$300-\$500 per year for a number of years.

Shortly after being hired as KICA chief operating officer (COO) in 2012, Jimmy Bailey was asked by both the FC and MRC to look into the reserve issue further, and later that year the board asked Bailey to make a formal recommendation.

Did the board and/or KICA staff consider alternative approaches in addition to the SAA?

Yes, alternatives were considered. These included drawing down reserves for several more years as well as seeking member approval for a larger, one-time special assessment once reserves fall below an acceptable level. However, it was determined that building reserves over several years through smaller, ongoing SAAs would be more manageable for property owners and more equitable between current and future owners.

The Details

How will SAA funds be used? The additional revenue from SAAs will be directed towards the ongoing maintenance, repair and replacement of KICA's infrastructure over the next seven to 10 years. These funds will *not* be used for day-to-day KICA operations.

Is the SAA allowed by the KICA Covenants? Yes. The covenants provide for an annual assessment and establish a maximum level for that assessment (the aforementioned MAA). The MAA is set by formula and increases every year by 5% or the current Consumer Price Index. This is different than the annual assessment, which is what the board actually chooses to assess the membership each

year based on budgetary needs for the upcoming year. Because the association members have not always been assessed the full amount allowed by the MAA, the current regular annual assessment is lower than the maximum allowed. Therefore, the SAA is allowed by the covenants since the combined total of the regular annual assessment and the SAA are within the MAA.

Is the SAA amount subject to change? The \$150 amount for 2013 and the proposed \$300 amount for 2014 and beyond are based upon KICA's most current evaluation of projected revenue and capital spending over the next seven to 10 years. The SAA amount could raise, decline or be eliminated entirely if future revenues or expenditures vary from projections.

The Conclusion

Ultimately, KICA has a responsibility to maintain the community's property values and assure that Kiawah continues to offer the best quality of life possible for its property owners. The KICA board, FC and MRC all believe that the SAA is a necessary and fair approach to assuring that these goals are achieved. For more information or questions regarding the SAA, please contact KICA at execoffice@kica.us or 843-768-9194.

What infrastructure do assessments help maintain?

KICA is responsible for a great deal of infrastructure on Kiawah. As the island ages, maintaining this infrastructure at a level that is consistent with the Kiawah brand is even more important. KICA infrastructure includes:

- Landscape – 987 acres (300 acres landscaped)
- Lakes – 115 lakes (342 acres and 46.4 miles of shoreline)
- Roads – 56.5 miles
- Drainage pipes – approximately 43 miles
- Walk bridges – 30
- Boardwalks – 25
- Leisure Trails – 17.6 miles
- Crab docks – 10
- Vehicular bridges - 7
- View towers – 3
- Boating facilities – 3 (3 docks, 2 ramps and 2 pavilions)
- Gates – 2 (with 5 electronic gate readers)
- Community Center - Sandcastle (with 4,600 sq foot pool)