

2019 Budget - Segment Assessments

The KICA covenants provide a funding mechanism for specific areas (or segment) on the island where there are particular improvements or services exclusive to that segment that exceed the normal standard across the island. The V-Gate assessment is an example of a segment assessment, as it's paid for solely by those who live beyond it. The idea is that those who don't derive a specific benefit don't end up subsidizing those who do.

Segment assessments are levied solely by the board, and any one segment assessment may not exceed one half of the amount of the Maximum Annual Assessment in any one assessment year. In 2019, the Maximum Annual Assessment (MAA) is \$2480, thus the most any one segment assessment can be is \$1240.

Ocean Park: KICA and Kiawah Partners have discussed for several years the appropriate process for conveying infrastructure and landscaping responsibility in Ocean Park to KICA. Ocean Park has a much higher landscape standard than most neighborhoods on Kiawah, starting with the fact that there is irrigation throughout the road rights of way in this neighborhood. In fact, it's the only developer installed, formally landscaped, residential neighborhood on the island which currently does not have either a separate regime or a segment assessment to pay for the higher standard of maintenance. Formal landscaping results in higher labor costs, as irrigated turf requires more mowing, there are irrigation breaks to fix (particularly in a neighborhood with lots of construction traffic), there are added fertilizer and chemical costs, and most of all – significant water expense. Irrigation is fed from potable water, and it's expensive. Ocean Park also has many more formally planted landscape beds, more mulch, etc.

As KICA has evaluated KP conveyance requests in Ocean Park, it has carefully studied the financial implications. The neighborhood has eight phases, and KICA currently maintains phases 1-3. These were conveyed prior to 2016, when KICA was required to accept any conveyance. Our experience in these three phases has been insightful, and it has resulted in an evaluation of Preserve as well, the only neighborhood on the island where a segment assessment is levied (a detailed analysis of the Preserve follows later in this memo).

Other neighborhoods on the island with irrigation and landscaping include the Preserve and The Settlement. In the Preserve, members pay KICA a segment assessment, and in the Settlement, members have their own regime that handles the landscaping and road maintenance (KICA is responsible for drainage, ponds, and security). To give some sense of the impact of higher landscape costs, the Settlement's annual regime fee exceeds \$3000, excluding any KI Club fees. This is in addition to the annual assessment paid to KICA. Though not on Kiawah, Cassique's annual regime fee is almost \$5k. These comparisons are provided for the sole purpose of illustrating the higher costs of more formal, labor intensive landscaping in neighborhoods that have many similar characteristics to Ocean Park and the Preserve.

KP has pointed out that KICA has installed irrigation along sections of the Kiawah Island Parkway, Governors Drive, and Ocean Course Drive and these charges are borne by the entire membership. KICA's position is that these are not neighborhood streets, but spine roads that connect all island neighborhoods, and every single island resident benefits from enhanced landscaping on these major thoroughfares. Their landscaping and the leisure trails that run alongside them function as a ten mile linear park. Comparing these parkways to neighborhood streets is apples and oranges from our perspective.

In considering Ocean Park phases 1-3 (note that this analysis does not consider the park itself, which is still owned and maintained by Kiawah Partners), we evaluated the following:

- Labor costs
- Irrigation expense
- Pine straw/mulch
- sod replacement
- plant replacement
- chemical expense

KICA's actual expense in these three phases is \$126K higher than what you'd find in a typical Kiawah neighborhood, so absent a segment assessment, every owner on the island is subsidizing a higher standard in Ocean Park. The full analysis is available, but here are the highlights:

- **Labor costs:** KICA's labor costs for standard mowing, blowing, edging, etc. in a typical island neighborhood are \$0.67/square foot. These three Ocean Park phases total 120,000 square feet of landscaping to maintain. Were we to maintain the neighborhood like all others on Kiawah, we'd expect our labor costs to be \$80k. However, the higher landscape standard mean we're there at least twice the time we spend in typical neighborhoods, thus 50%, or \$40k, represents a reasonable estimate of the added Labor costs to maintain Ocean Park formally.
- **Irrigation:** Ocean Park has a lot of irrigated turf in the road rights of way, and the water bills for these three phases reflect an annual cost of \$89k. We did consider the fact that certain neighborhoods have irrigated landscape beds at their entrances, or irrigated medians or cul de sacs. We've made an allowance for these areas and discounted the Ocean Park irrigation expense by 20%. Thus, we believe the irrigation expense unique to Ocean Park is \$71k.
- **Pine Straw:** Pine straw is not installed in typical neighborhoods. In these three phases, the costs of the straw total \$12,500.00

As noted, there are a few other items included in the analysis, but the bulk of the added costs are included above. With \$126k in costs unique to this neighborhood, we believe a segment assessment is warranted, necessary, and equitable for the entire membership. Were KICA to levy a segment assessment to cover the full \$126k, it would be \$1850. Unfortunately, that

exceeds the maximum allowed by covenants. Thus, we recommend implementation of a \$1240 segment assessment for Ocean Park, which will recoup \$86K of the \$126k in added costs. Given the fact that a shortfall remains, KICA may need to reduce services, or begin discussions with Ocean Park residents about forming their own regime to charge whatever amount is necessary to pay for the enhanced services.

*Note: Ocean Park phases 4-8 are still maintained by the developer. The budget contemplates collecting the fee from all phases, but crediting back the developer for the properties where it remains responsible for maintenance.

The Preserve: In evaluating Ocean Park, we went through the documents related to the Preserve, as it is KICA's only prior experience in the implementation of a segment assessment for a neighborhood, and even then the board was controlled by the developer. Initially established in 1998, the board acknowledged the higher than average costs associated with The Preserve and KP began paying KICA a \$150 fee on the initial sale of each new lot.

In 2009, the board determined that this was an unsustainable model, as the fee was only associated with new lot sales. The board continued to acknowledge the extraordinary additional maintenance for this neighborhood. It established a \$200/year charge at this time. It was a good and necessary step, but probably did not go far enough. In fairness to the rest of the community, it is time in 2019 to charge the appropriate amount.

We also conducted the same financial analysis for the Preserve as the one done in Ocean Park, and have concluded that landscaping costs exceed typical neighborhood costs by \$198k. Using the same approach outlined above in the prior analysis, the highlights include:

- **Labor costs:** There are 217,800 square feet of landscaped areas in the Preserve. At \$0.67/s.f., the total labor cost for this neighborhood is \$146k. Using the same formula to determine the difference in cost between the Preserve and typical island neighborhoods, KICA confidently estimates \$73K in additional costs.
- **Irrigation:** KICA's irrigation costs in the Preserve are \$87k annually. Using the same formula to discount this amount, the Preserve's irrigation expense is \$70k higher than "typical" island neighborhoods.
- **Pine Straw:** KICA spends \$36K on Pine Straw in the Preserve that it does not spend in typical island neighborhoods.
- **Fence Repair:** The Preserve has a fence that results in approximately \$10k/year in costs.

The Preserve has had a segment assessment in place for quite some time, but the exercise related to Ocean Park led to the Preserve analysis. It indicates that the segment assessment currently charged isn't close to adequate.

The Preserve has \$198k in unique costs, yet 2018's segment assessment generated only \$28k. Were KICA to charge a segment assessment sufficient to cover the entire added cost, it would exceed \$1500/year per improved property. Accordingly, we recommend increasing the

segment assessment to the maximum allowed per the covenants (\$1240 improved/\$620 unimproved), which generate \$165K. Given the fact that a shortfall remains, KICA may need to reduce services, or begin discussions with the Preserve residents about forming their own regime to charge whatever amount is necessary to pay for the enhanced services.