

September 2, 2005

To: Board of Directors - Southern Village Homeowners Association
From: SV Alley Assessment Committee (Bob Callanan, Dino Perone, Jim Dunleavey, Stephanie Lane, Elizabeth Phillips)
Re: Recommendation for Alley Reserve

We have completed our analysis and have a recommendation for an Alley Reserve beginning with the 2006 fiscal year. Our recommendations are as follows:

- The alleys are owned privately by the homeowner but the usage (wear and tear) of the alleys is shared evenly by everyone that lives on an alley. Therefore the cost of any maintenance and repair should be shared evenly among all homeowners living on an alley.
- In addition to single family homes, the town homes must also participate in the cost of repairs and maintenance on the alleys. For the same reasons mentioned above, the town home owners, despite owning fewer sq.ft. of alley space, contribute to the wear and tear of the alleys as any other single family home. Therefore each town home should be assessed for the same dollar amount as the single family home.
- We were informed that the reserve study completed in 2001 by Reserve Advisors, Inc. contains budgeted expenditures that are inflated. Actual expenditures have been as little as 50% of the budgeted expenditures. Also, we are unsure which alleys were included or excluded from the reserve. As a result, we recommend the Board request that the study be updated (or a contractor hired to estimate the cost of re-paving) with more emphasis placed on the alleys themselves. In addition to more accurate costs, we also recommend the study be completed with a better understanding of the different types of alleys that exist throughout SV (i.e. private alleys, commercial alleys, apartment alleys).
- The year in which the alleys need to be re-paved contributes heavily to the amount of the annual assessment. The Study estimated replacement beginning in 2015. We recommend a study be completed bi-annually beginning in 2006 to inspect the alleys for potential problems and make preventive repairs where needed to extend the life as much as possible. The annual assessment must be evaluated upon completion of the inspection given the cost of the repairs and any changes to the life expectancy.
- We have assumed that inflation will match the interest earned. Given the assumptions made above, we determined this level accuracy would not be material at this time. However, as other estimates become more accurate or the economy shifts, we may wish to revisit.
- The spreadsheet attached contains some assumptions we made and forecasts the cash flow through 2020. Assuming that expenditures will be 70% of the reserve budget and assuming that 5% of the budgeted expenditures include amounts for the repair of commercial alleys, alleys and lots for the apartments and the walking trail we are comfortable that an initial reserve of \$30 to \$35 will be sufficient to cover all repairs and maintenance of the alleys as well as the eventual re-paving in 2015 and 2016.