



ISSUES BULLETIN 2005-5

February 9, 2006

FACT SHEET: WHY ARCH'S BOARD UNANIMOUSLY RECOMMENDS VOTING "YES" ON THE RA GOVERNING DOCUMENTS

I. ARCH's Goals During the Process – Which We Believe Have Been Met

1. Ensure through constructive input changes that would help get to "Yes" (see www.restonarch.org/RAdocs/ for the extensive ARCH matrixes and other work product produced from August 23, 2005 to present).
2. Ensure the proposed changes meet RA's critical current and future operating and capital needs without requiring frequent Member referenda (impractical for an HOA the size and character of RA).
3. Ensure the new documents do not materially diminish existing Cluster and Member rights of review and participation.

II. Top 10 Reasons ARCH's Board Supports the Referendum

1. Doing Nothing is Not a Prudent Option: RA is nearly out of assessment authority (cap margin) due to increased operational and capital requirements (including \$1+M (on average) annually in new revenue needed through 2020 to fund the repair and replacement reserve, *validated by the recent reserve study*, to address RA's aging infrastructure). RA's financial projections suggest no change will soon mean frequent referenda on assessment increases (impractical and debilitating) or, without new revenue authority, deficit spending or cutbacks in services and operation.
2. The Proposed Cap Adjustment Maintains the Status Quo: The cap changes – no increase to the Maximum Assessment, adjusting the annual accelerator to the greater of 4.5% or ECI – will provide on average \$1M in additional assessment authority *above and beyond RA staff's projected operational and capital needs for the next 15 years*. This will provide an average cap margin equating to 10% of the Actual Assessment, *exactly what it has been from 1991 to the present*.
3. The Capital Referendum Requirement Remains: Strengthened to include not only new capital projects but any seasonal or other improvements to existing facilities that exceed the existing referendum threshold of \$369,000 (as annually adjusted).
4. Clusters Remain Masters of Their Domain: The changes reinforce Cluster authority over Cluster Common Area ("shall own, manage and provide Upkeep for...") and add important due process protections for allegedly non-compliant Clusters. (*Earlier changes suggesting RA Board control of Cluster "care and operation," and/or an RA Board-mandated Cluster management agency, have been eliminated.*)
5. DRB Process Improved: Adds three new provisions: a) DRB Guidelines would be subject to RA Board approval; b) a lay Member would be required on each DRB panel; and c) DRB may impose application fees on complex commercial applications (no fees are allowed on Member applications).
6. \$250 Resale Fee Will Moderate Assessment Increases: In just 2007, RA staff projects this will generate \$435K/year in new revenue (equivalent to \$26/home in assessments). Without it, the 2007 assessment would increase from \$437 to \$463.
7. Language added making clear RA recreational facilities, while open for non-Member use, are intended primarily for the benefit and use of Members. Language allowing RA to enter into partnerships and consortiums was also added.



Alliance of Reston Clusters and Homeowners
Supporting Homeowner Groups in All of Reston's Neighborhoods

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8. New RA Common Area Limitations: Would prevent encumbering or conveying without prior Member approval at referendum (not required under the existing Deed).
9. Material Member rights and controls would be consolidated in the Deed.
10. Debilitating to the Community to Repeat this Exercise: ARCH believes the long process to get these documents to their current state has been extremely open, and the RA Board has worked in good faith to find common ground among the many different points of view expressed. This is a true compromise document. Voting 'No' and requiring we repeat this process in search of some "better" or "different" compromise – and we would have to do that next year given the shrinking cap margin -- would be pointless and debilitating to the community.

III. Principal Reasons Cited to Vote "No" – None of which, ARCH Believes, Individually or Collectively Justifies a "No" Vote

1. Reduced quorum requirement from 40% to 30% on major Member referenda weakens Member rights: ARCH disagrees. A quorum requirement is intended to a) ensure an adequate voter sampling at referenda, and b) prevent an organized minority from controlling referenda. This small reduction does not materially impact these goals. It may help prevent, however, wasteful reruns of widely supported referenda, at great cost, simply because only 38% turned out to vote.
2. The new documents allow the RA Board to add non-contiguous property to RA: True, but ARCH does not believe contiguity is the essential requirement to expanding RA – rather, the keys are whether the expansion is in keeping with the character of the community and will mutually benefit RA and the added properties. Any expansion requires a 2/3 Board vote and consent of the properties being added.
3. The new documents require clusters obtain \$1M in general liability insurance and make RA a co-insured. True, but Cluster boards, in meeting their fiduciary duties, arguably should obtain general liability coverage. Failing to do so exposes other RA members to risk (as those injured on Cluster Common Area where there is no liability coverage will surely seek damages from the RA deep pocket). This requirement, in effect, protects the vast majority of Clusters who already have such insurance.
4. The \$250 resale fee is unneeded and/or unfair. Achieving consensus means compromise, and this provision has been changed. The money would now go to general revenues and thus mitigate assessment increases; *an earlier provision that it be earmarked for capital projects was eliminated.* Even as changed, this provision remains objectionable to some. Using RA's 15-year projections, this will generate (on average) \$545K in new revenues/year (or \$31/home/year in assessment savings). This equates to approximately \$500 in total assessment savings per home through 2020. We think those numbers will resonate with many RA Members.
5. The cap changes (depending on one's perspective) eliminate Board flexibility or provide too much flexibility. Under RA's projections, the changes provide an average cap margin over the next 15 years of \$59, allowing approximately \$1M in additional assessment authority without need of Member approval *above and beyond projected capital and operating needs.* ARCH does not believe that unduly limits Board flexibility, nor does it provide unreasonable discretion. To the contrary, that average \$59 margin equates to 10% of the projected average Actual Assessments over that same period – *and that is exactly the same level as has existed from 1991 to the present which, ARCH believes, has served the community well.*