



# How to Pay for Infrastructure?

February 24, 2024

By Will Wrean

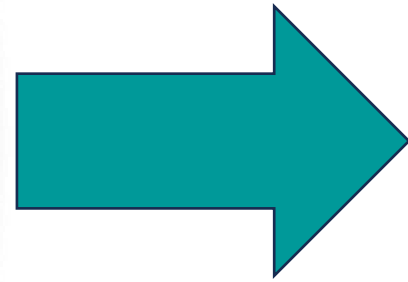
Based on the consumer price index,  
something that cost \$1 in December  
2002 would cost \$1.70 today, an  
increase of 70%

Anyone who has owned a house or car knows physical items wear out over time, especially in a harsh oceanside environment.

Marbella is over 20 years old, much of our infrastructure now requires repair or replacement and everything is 70% more expensive today than when it was new.

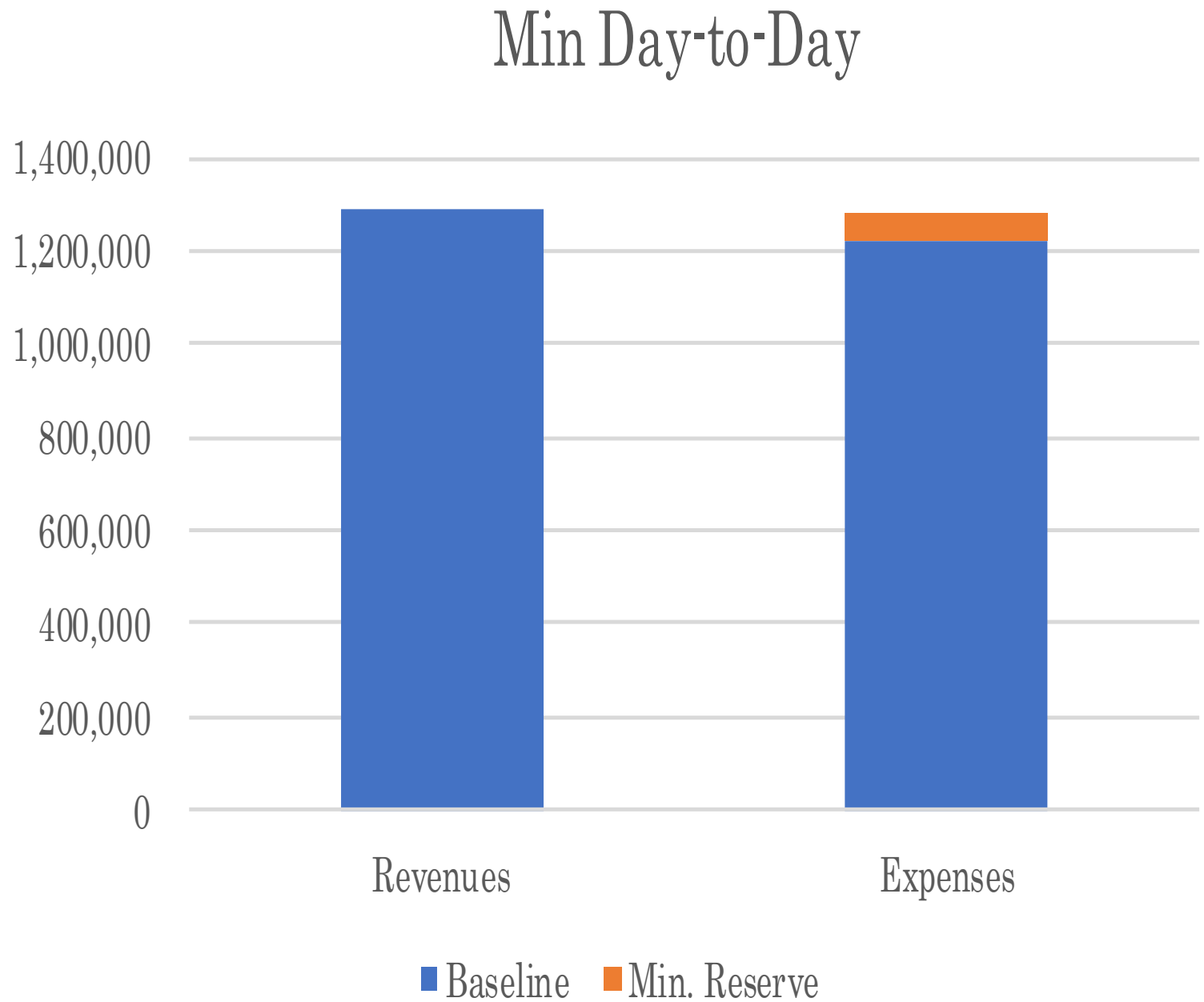
A house or car needs very few repairs when new, but as they age, the cost of repairs increases.

Yet, Marbella HOA fees have never been raised. The past 3 boards have all asked to raise additional funds to maintain Marbella and been unsuccessful.



As a result, the recent boards have been through the financials carefully, re-negotiating service contracts and reducing other costs, while trying to maintain a basic level of service and repair.

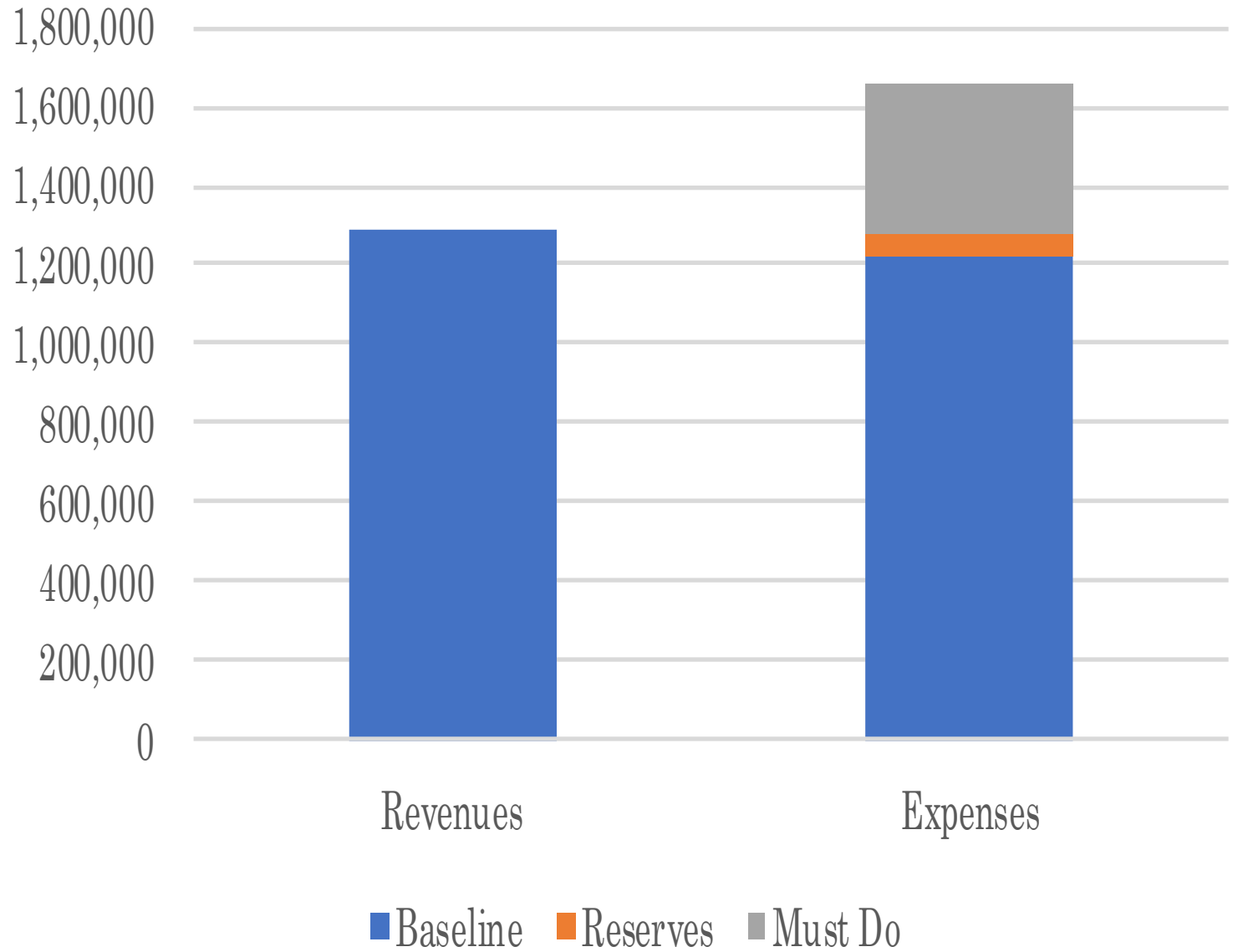
After the legally required 5% contribution to regime reserves, the 2023 income covered the operating costs for Marbella with about an \$8,800 surplus. This is not enough!



**Existing infrastructure projects:  
MUST DOs**

Building 4 Generator	\$91,000
Fix cracks and paint exterior of buildings	\$150,000
Substation maintenance	\$16,500
Rooftop exhaust fans	\$64,900
Update security cameras	\$46,400
Accessibility	\$10,000
Min. Reserve	\$59,600

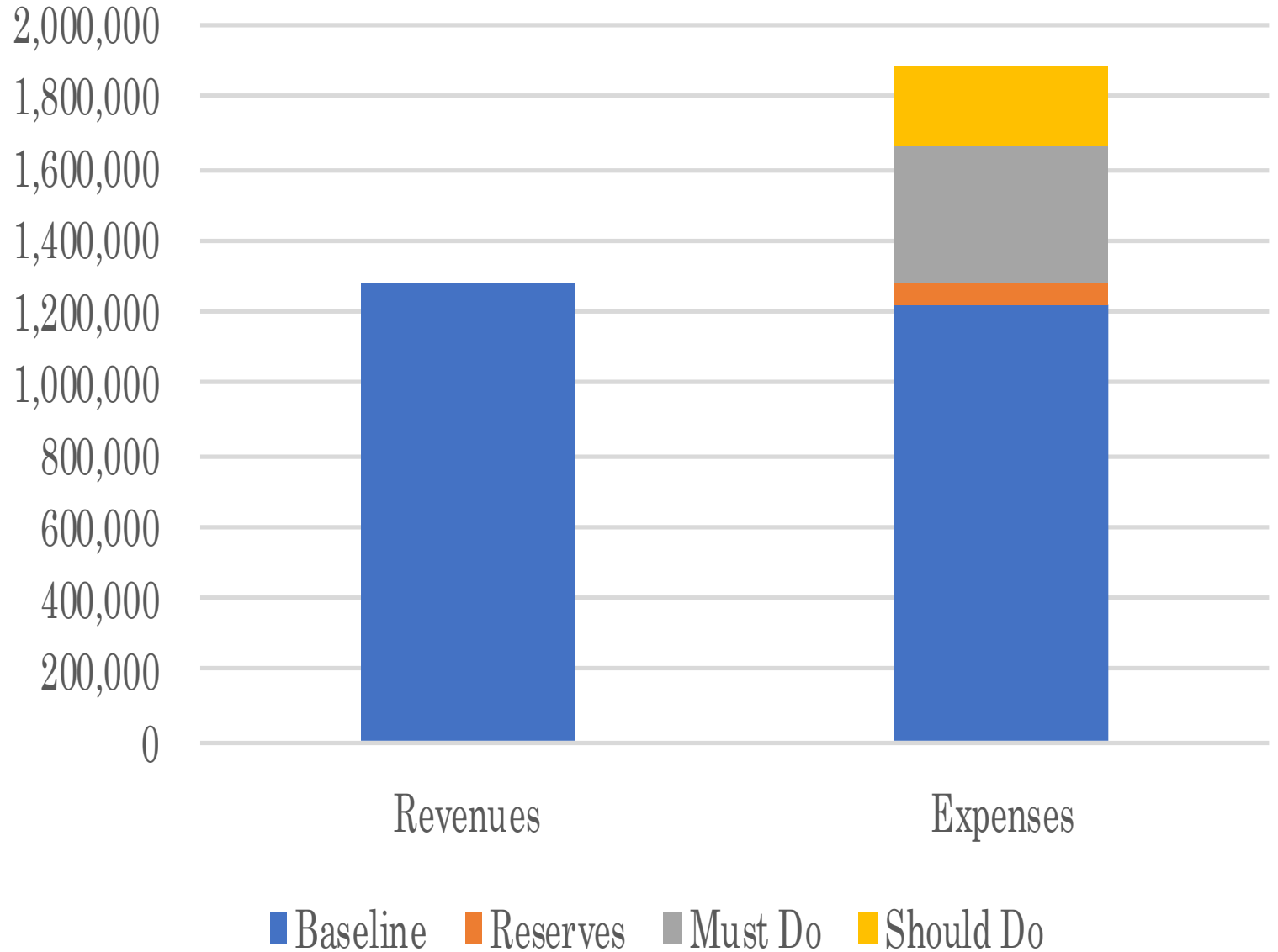
# Must Do Expenses



**Existing infrastructure projects:  
MUST & SHOULD DOs**

Must Do	\$378,800
Irrigation System	\$57,450
Landscaping & Courtyards	\$75,000
Full Accessibility	\$30,000
Elevator Cabin Refresh	\$60,000
Paint Courtyards	\$TBD?
Min. Reserve	\$59,600

# Must & Should Do



# Planning for the Future

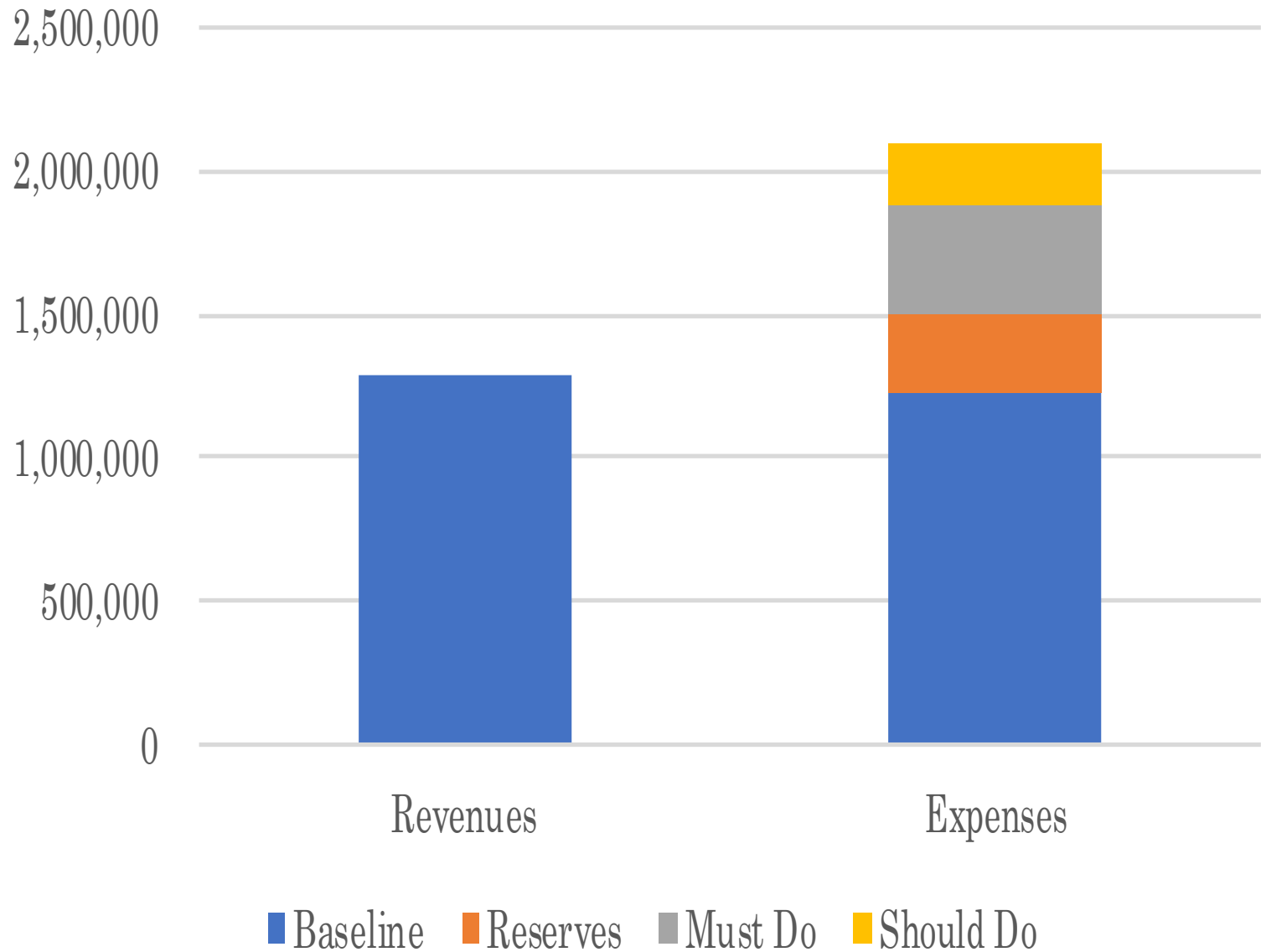
## General Wear and Tear (Future, Annual Estimates):

- Paint buildings (5 buildings every 5 years):  
**\$50,000**
- Generators (5 generators, every 20 years):  
**\$22,750**
- Elevators (5 elevators, every 20 years):  
**\$45,000**
- Electronic Equipment: **\$TBD**
- Pool Equipment, Paint and Furniture:  
**\$10,000**
- Repair Car Port & Pergolas: **\$TBD**
- Other?

**Existing infrastructure projects:  
MUST & SHOULD DOs, Future  
Focused Reserves**

Must Do	\$378,800
Should Do	\$222,400
Future Needs Reserves	\$279,000

# Must, Should & Future Needs Reserves

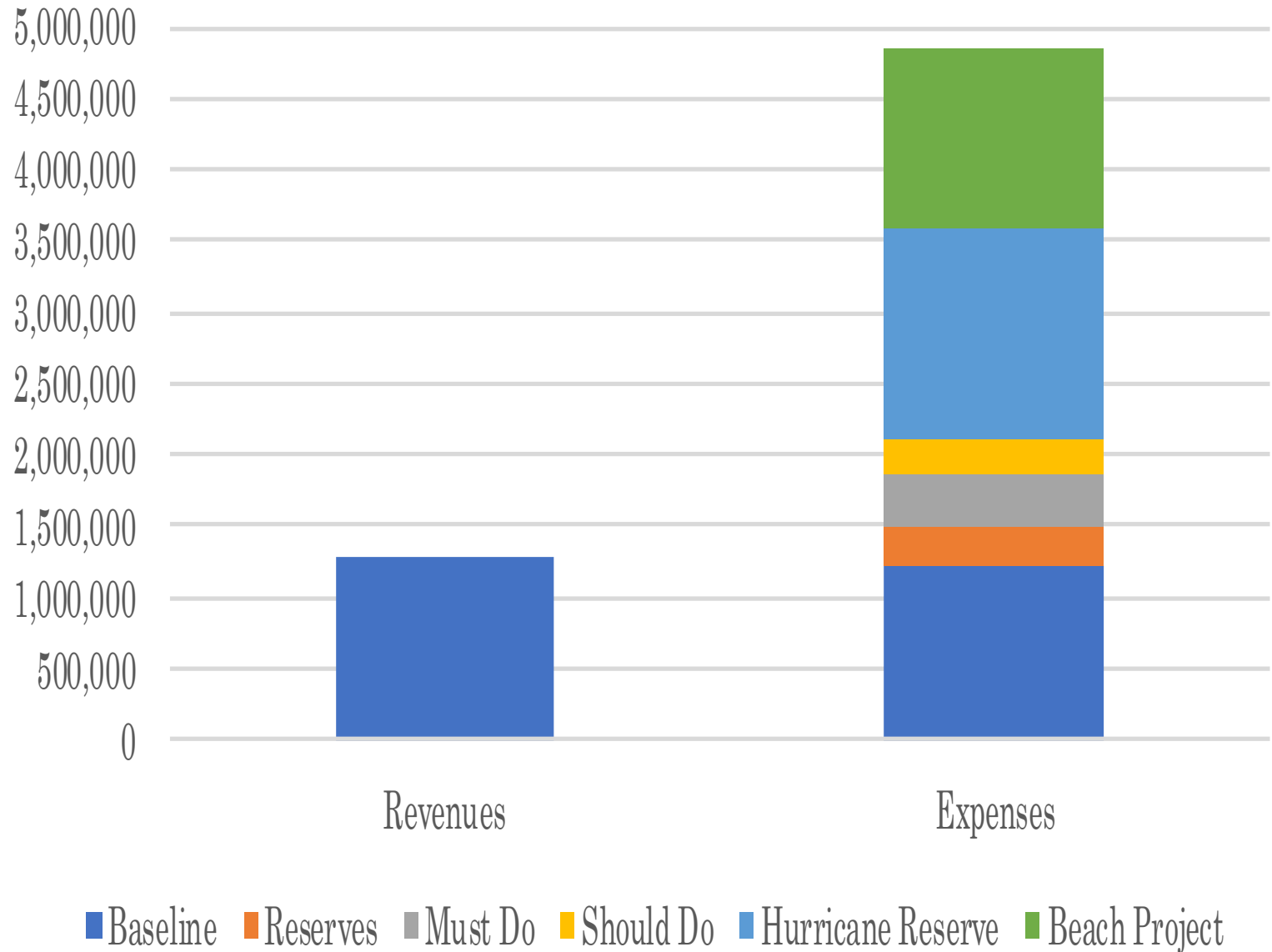


# Large & Important

- Beach Erosion Project:  
**\$1,250,000**
- Hurricane Insurance Deductible:  
**\$1,500,000**

Comprehensive Needs	
Baseline	\$1,218,600
Reserves	\$279,000
Must Do	\$378,800
Should Do	\$222,400
Hurricane Deductible Reserve	\$1,500,000 (BoD hope to reduce this)
Beach Project	\$1,250,000 (estimated)

# Comprehensive Needs



# Regime Specific Projects:

Building 2 Elevator (Regime I): \$180,000

Building 2 & 3 Transfer Switches (Regime I): \$41,500

Buildings 4 & 5 Duct Blowers (Regime II): \$76,900

How should we pay for these projects?

Increased HOA fees?

Assessments?

Unit transfer tax?

Increase interest on cash holdings?

Other options?

What are the advantages and disadvantages of each?

# HOA Fees

## Advantages:

- Fixed amount
- Easy to budget
- Can keep portion separate from operating expenses
- Available when needed for urgent projects
- Repairs funded by owners who use infrastructure during its useful life
  - For example: Painting buildings

## Disadvantages:

- Once funds are collected, there is risk they will be spent on general operations or “luxuries”

# Assessments

## Advantages:

- Raised to fund specific known projects
- Little risk of being spent where not intended
- Keeps HOA fees lower

## Disadvantages:

- Requires approval from owners for specific projects
- Risk delays or possible rejection
- Creates mismatch between who pays and who derives the benefit due to timing

# Sales Transfer Tax

## Advantages:

- Has precedent; by-laws actually discuss this upon the original sale of each unit
- Paid by the seller out of readily available cash
- Costs not on buyer, so not hinder their purchase
- Would have generated \$10,000 in 2023

## Disadvantages:

- Small cost when owner sells their unit
- Uncertain when units will be sold, so unsure when funds will be available

# Invest Excess Cash in Money Market Funds

## Advantages:

- Would increase income earned safely
  - i.e earning 3% on extra cash would generate \$18,000/yr
- Can get free checking & ACH transfers to access funds easily

## Disadvantages:

- Very slight market risk that MMF value changes from \$1. I believe this is less risk than having excess funds over the FDIC Insurance in Banco Popular.

# Recommendations

As an economist, my recommendation would be to have HOA fees cover Day-to-Day expenses, a steady contribution to Regime reserves and a Special Projects reserve to cover predictable future wear and tear.

Implement the unit transfer tax

Set up MMF accounts to increase income on cash

I would strongly recommend a one-time assessment to cover the Must Do projects.

I recommend an assessment for the Should Do projects, but understand if the owners wish to postpone these expenses for a year.

Saving for the two big uncertain projects (Hurricane insurance deductibles & Beach protection) should begin immediately, either by increasing HOA fees or an assessment of perhaps 1/3 of the expected future cost. This would then be repeated over 2 more years to fully fund the projects within 3 years.

# Other?

Advantages:

Disadvantages: