TOCCA Letter from the Treasurer February 8, 2024

Hello all,

We have prepared a 3 year high level summary projection to provide visibility into the near-term financial impact of the proposed loan based on a set of assumptions. This forecast is in no way comprehensive, but is a means to provide additional information to consider as part of your decision making process. This is limited to 3 years as the information available and current state of specific contributing factors can be accounted for with a high level of confidence.
For example:

- TOC Facilities assessments have been approved for annual 15% increases through 2026
- Pool service expenses have been contracted with our vendor through 2026
- Major clubhouse facility maintenance and renovation projects are not expected past 2024 for this 3 year time period
- Trafalgar construction is expected to be completed within this timeframe, but the status of Spinnaker expansion is uncertain

The loan structure is similar to a HELOC where during the draw period, our monthly obligation is limited to interest only payments on the precise amount of funding that has been used up to that point. This prevents the need to extend any obligations and/or interest expenses beyond the exact amount required to complete the proposed projects. To account for that in the forecast, we are estimating three draws from the loan across 2024 and 2025 and have accounted for interest only expenses during that period; converting to principal & interest payments after. The reality is that we may have a much larger number of draws, as these loan accounts are able to have checks written directly from them, eliminating the need to pull more than is necessary to pay for each phase of the projects and reducing the interest expense from the estimates provided. Additionally, while initially approved for the $1.1M amount, our expectation is that our needs will fall between $900k and $1M, but this provides the flexibility to account for variations in contractor bids, materials or other unexpected expenses.

We have consulted with our accountant to better understand the high level impact that the loan, accompanying interest expense, and the cost that the capital improvements will have on our annual tax obligations. TOC Facilities is a LLC and taxed as a corporation; this means that our tax liability takes into account all income (including assessments), minus our operating expense, interest and depreciation. Both of these projects are considered improvements and able to be depreciated over 15 years, with an option for a year one increased deduction. This provides additional flexibility and will allow us to work with our accountant to select the best approach for reducing our annual tax liability.

We believe we are in a favorable position to manage this loan and complete two significant projects that will have multi-decade lifespans. Utilizing this approach spreads the cost over an extended period and doesn't place undue hardship on current members for an improvement that will be in place long after many have transitioned out of the community. These projects translate into a potential $12,500 special assessment (based on 80 lots) that would instead be accomplished through the current incremental assessment increases and managed by the active residents over the span of the loan repayment. It is the philosophy of the current Board to avoid special assessments in all but the most dire of scenarios.

Thank you,
Patrick McAuliffe