

In response to questions from homeowners about the Association budget and expenses, IPS asked residents to provide their questions so that all could be answered at one time. Below are responses to those questions.

Please keep in mind that expenses are for all common areas. There are several common areas in Fort DuPont that are for the benefit of all residents and some that are specific to a district. Parklands and recreational amenities would be one example that is for the benefit of all. Another would be the storm water management system. The cost of maintaining bio-basins in a specific district, however, would be charged to that district.

Also, please keep in mind that the Association Fee for the Canal District and Officers Row is capped at \$500. So even with common area expense allocations exceeding \$500 per year, those additional expenses are not the obligation of the lot owners in these two districts. Fort DuPont Redevelopment and Preservation Corporation ("FDRPC") is responsible for the additional expenses.

Following are the responses that will hopefully answer questions as to the various expenses contributing to Association fees.

- 1. Allocation of Costs.** With only a few homeowners as of 6/30/19 and most homes only occupied 1-6 months by that date, question was raised on how the expenses associated with those homes were allocated.

Response: Expenses allocated to the Canal District and Officers Row were prorated against all lots, not just those having sold to homeowners. FDRPC covers the costs for those lots that have not been sold. When homeowners take title, they pay their prorated fee for the year, not for the entire year.

On Officers Row, there are 15 lots that are all charged \$500 and in the Canal District there are 64 lots being charged \$500 a year. Again, the fees assessed to those lots that remain under the ownership of FDRPC are the responsibility of FDRPC.

- 2. Management Fees:** Question was raised on who is being paid the management fees.

Response: FDRPC engaged IPS for their management services. The management fee is a charge to the association. The IPS fee is \$5000 a year and will increase with development of other districts. For now, IPS is only assisting with the Canal District and Officers Row.

- 3. Legal and Collection Fees.** Question was raised on why these expenses were incurred and why the association is responsible.

Response: Expenses involved legal correspondence associated with the rules and regulations. In the event that additional services beyond those of the management company are engaged for collections and violations, then the costs are passed on to the Association.

- 4. Security Services.** Questions were raised as to why expenses were incurred for security and what security was involved.

Response: FDRPC has contracted with Talkington Communications to install video surveillance cameras to monitor roads, common areas and historic properties. The use of video surveillance is intended to keep security costs to a minimum by mitigating the need for onsite security personnel. When the Governor Bacon Health Center was in operation, FDRPC relied in large part on the Health Center's security staff to monitor the property. FDRPC's video surveillance is monitored remotely and available to Delaware City Police. Thus far the system has been successful in capturing video of people doing damage to buildings, painting graffiti and breaking into buildings. The video system is also helping to keep property and liability insurance rates lower. As to the reason for the shortfall in FDRPC's budget for security, when the budget was prepared FDRPC did not know that the state would be closing the health center so quickly and removing their security staff. So a decision had to be made as to whether to retain on site security staff or move forward with video surveillance. Either way there would have been an increase in expenses over what was budgeted. Video was the most cost effective solution.

- 5. Property Taxes and HOA Fees.** Question was raised on why residents should pay both property taxes and association fees.

Response: The city is not responsible for maintaining our common areas, which includes the storm water system and roads. This is typical of any HOA. Homeowners pay taxes for governmental services and an HOA fee for maintenance of their common areas.

- 6. Capital Reserve.** Question was raised if the reserve would change over time.

Response: FDRPC will be working with IPS to refine the capital reserve calculation so that it adequately reflects the depreciable life of common areas to ensure that funds are available for repairs and replacement in the future. This would apply to all common areas, but most importantly to roads and sidewalks.

- 7. Roads and Storm Water Management Expenses.** Question was raised as to why homeowners should pay for the cost of roads and storm water management systems.

Response: Construction of the roads are paid for by FDRPC. Maintenance of the roads is a cost of the Association. This is a small expense. In the past it included repairs to the main roads, which are now being rebuilt.

Same with the storm water management system. The initial cost of the bio-basins is being paid by FDRPC. Ongoing maintenance, however, is an expense of the Association. We also have a storm water pumping station that has to be maintained. It discharges all storm water off site. If it fails, some areas of the site would encounter flooding. To make sure that doesn't happen, there are two pumps running and another in storage should one fail. These pumps

are repaired annually and sometimes replaced. It is critical that the pumps are inspected, repaired and replaced as needed. Maintaining the pump station is the primary expense on this line item. Bio-basin expenses are shown on a separate line and those expenses will increase as more basins come on line.

- 8. Park and Recreation Expenses.** Question was raised as to why residents were being charged for costs associated with the maintenance of park and recreation amenities.

Response: FDRPC is responsible for the capital costs associated with developing and improving the park and recreation amenities. This includes the park trails along the river, throughout the batteries, along the Branch Canal and eventually for a dog park, two playgrounds, and basketball/pickleball/tennis courts. These amenities are for the benefit of residents and those who work at or visit the site. As these amenities get built-out, the maintenance costs will increase, but the portion being allocated to the Canal District and Officers Row will be kept to a minimum. With a \$500 cap on Association fees to residents of the Canal District and Officers Row, FDRPC must look for other sources of revenue to cover the operating costs of these amenities. The future campground, for example, has agreed to contribute to the maintenance of these amenities and as we work on other developments within Fort DuPont, we will be able to generate more revenue to cover maintenance expenses.

- 9. Liability and Property Insurance.** Question was raised on who/what is being covered with the liability insurance.

Response: Insurance charged to the Association is for general liability should someone get hurt while on any of the common areas. FDRPC has additional insurance for buildings, D&O, Auto and Workers Compensation, but the premiums for those policies are not an expense of the Association.

- 10. Street Lights and Signage.** Question raised as to why there are lighting and signage expenses.

Response: The street lights are owned by Delmarva, who in turn bills FDRPC for the electricity. That cost is passed on to the Association. Signage replacement and repairs are also charged to the Association, but not the initial installation.

- 11. Accounting and Audit Fees.** Question was raised on how the annual audit benefits the homeowners and why the actual expense was three times the budget.

Response: Accounting expenses for FDRPC have increased with the level of development underway. The accounting expenses include outside bookkeeping and financial review services. Last Fiscal Year, FDRPC spent more than the \$15,000. There was \$12,481 in outside accounting services and over \$8,000 in accrued expenses for the annual financial report. While FDRPC's actual expenses exceed the \$15,000 listed, the additional expense would not impact the Association fee for the Canal District and Officers Row since it is capped at \$500.

12. Snow Removal. Question was raised about the snow removal expenses and why there was \$6,000 spent in 2019-2020 when there was very little snow.

Response: In the past, FDRPC contracted out most of the snow removal. To keep costs down we have transitioned to doing snow and ice removal with our own staff and equipment. In the event there are larger storms than our staff can handle, we have Cutting Edge on standby. In the 2019-2020 we had to purchase salt and we also used Cutting Edge for one of the storms to keep the main road plowed. The cost of outside services varies according to the amount of snow in each event. Last year there was one storm that required multiple passes by Cutting Edge. With FDRPC's staff doing the work, the amount of snow during one event does not increase the cost to FDRPC or the Association. It is also important to note that FDRPC did not include the payroll expense for its employees that were involved with the snow and ice removal last year or the depreciable cost of equipment owned by FDRPC. The \$6,000 charge was extremely low compared to previous years when the cost was over \$60,000.

13. Newsletter/Website. Question on what expenses comprise the Newsletter/Website and how these expenses benefit the homeowners

Response: One newsletter was sent out along with community news updates and the development of a Community Association page on the FDRPC website where legal documents and notices are posted. Newsletters and updates are typical ways of keeping the community informed. The Community Association page on the website is the best location for posting legal documents as well as notices, which in some cases are too large to email. Downloading from the website is more efficient. We are also finding that people looking at whether or not to purchase a home at Fort DuPont are researching the website and downloading information such as the Declaration and Guidelines.

14. Miscellaneous & Office Expenses. Question on what is included.

Response: Printing, postage and costs associated with notices/mailings are the primary items under Office Expenses. Misc. is for any administrative expense not anticipated.

15. Civic/Recreation Expenses. Question on what is included.

Response: Should there be any community events/meetings, social or otherwise, the cost of those events would be charged to the Association.

16. Landscape, Lawn Care and Tree Maintenance. Question on what resulted in these expenses and why they were attributed to the Canal District and Officers Row with almost no common areas in these districts to be maintained as of June 30.

Response: Trees along Officers Row required pruning and maintenance. Most of the older trees were neglected over the years. Storm damage also required removal of limbs and two

trees that fell down on Officers Row. Other trees that died had to be replaced. Maintenance/mowing around the bio basins and edges of common areas were additional costs. There is also a cost of mowing and maintaining common areas adjacent to the Canal District that are beneficial to the residents. These areas include the parade ground and promenade along the Branch Canal, and as stated previously each district contributes to the overall landscape/lawn/tree maintenance of Fort DuPont.

17. Financial Reports. Question was raised on the frequency of financial reports to the Association.

Response: The financial report and budget will be provided annually.

18. Reduction in Expenses. Question was raised about the expenses exceeding revenue from Association Fees; if consideration had been given to reducing expenses so that they came in closer to \$500/month; and what assurance there was that FDRPC would remain in a position to cover expenses should they exceed the revenue generated from Association Fees.

Response: In every HOA, the Declarant is responsible for covering their prorated share of the expenses until such time that the HOA takes over. In the case of Fort DuPont, the Association is not turned over to the homeowners or property owners since the common areas remain under the ownership of FDRPC. This is why the \$500 cap was put in place. It serves to protect the homeowners from escalating fees, which typically are the case. Often times budgets are low to start with an HOA and the impact of the actual expenses are not felt by the homeowners until the Declarant transfers responsibility. Prior to doing so, the Declarant often covers the additional expenses, which keeps the fees lower while they are selling homes. This is important to understand with the FDRPC Community Association. Discussion can be had around the expenses, but at the end of the day it is, and will remain, FDRPC's responsibility to cover any shortfall in the revenue received from Association Fees.

Therefore, it is in FDRPC's best interest to develop the community so that more Association Fees are generated to cover maintenance of common areas. This also reason why FDRPC is looking for ways to cut expenses, as previously outlined with snow removal and security.

Revenue from Association Fees will eventually offset the common area maintenance expenses. Until then, FDRPC relies upon revenue from rentals, special events, and development to cover operating and maintenance expenses.