



# Tahoe Donner Association 2018 Budget

Joint Finance Committee/Board Meeting 9/14/2017

Prepared by Michael Salmon, Director of Finance and Accounting, September 12, 2017

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# 2018 Budget – Agenda today



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- Budget Oversight and Governance
- Annual Assessment
  - Budget 2017 over time charts
  - Strategic Planning Guidance update
- Development Fund
- New Machinery and Equipment Fund
- Replacement Reserve Fund
- Operating Fund
  - Surplus in members equity
  - Rates and Fees
  - Revenues Costs and resulting Net Operating Result Loss
- Next Steps

# Budget oversight



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## ■ Governance

- Federal State Local agencies
  - Laws and regulations
  - Sales tax audits, property tax audits, income tax audits
- Governing Documents
- Fiduciary Duty
  - DUTY OF CARE (Due Diligence; Duty to Investigate)
  - DUTY OF LOYALTY (No Self-Dealing)

- Board
- Finance Committee
- Members
- Management
- Internal Controls
  - Authorization Levels
- Financial Reporting
  - Daily Weekly Monthly
  - Annual Report and Annual Audit

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# Governance



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- California's Davis-Sterling Act laws that address reserves require Disclosures and a Reserve Study to be performed every 3 years, updated annually. No specific funding levels or fund balances are required by law. However, the law does require the Board to act with ***Fiduciary Duty***.
- ***Fiduciary Duty***. The director must remain focused on the best interests of the corporation.  
Loyalty to the corporation means subordinating personal objectives and needs to the financial requirements of the association. In this regard, Civil Code Section 1366 explicitly provides that the homeowners association shall levy regular and special assessments sufficient to perform its obligations under the governing documents and the Davis-Stirling Act, California Civil Code Section 1350.
- Budget must be communicated to members not less than 45 days and no more than 60 days prior to start of new year (DSA & ByLaws XII, Section 5).

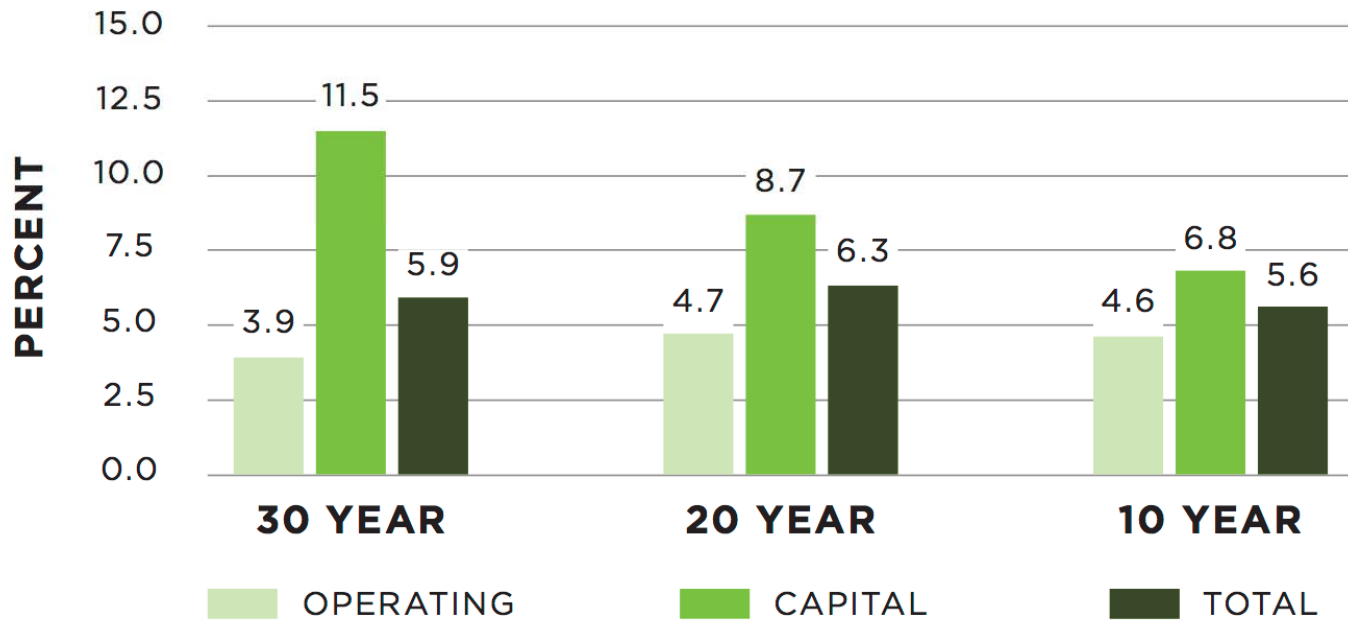
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## ANNUAL ASSESSMENT GROWTH RATE BY FUND TYPE AND TOTAL

1987 - 1997 - 2007 - 2017 BUDGET

COMPOUNDED ANNUAL GROWTH RATE

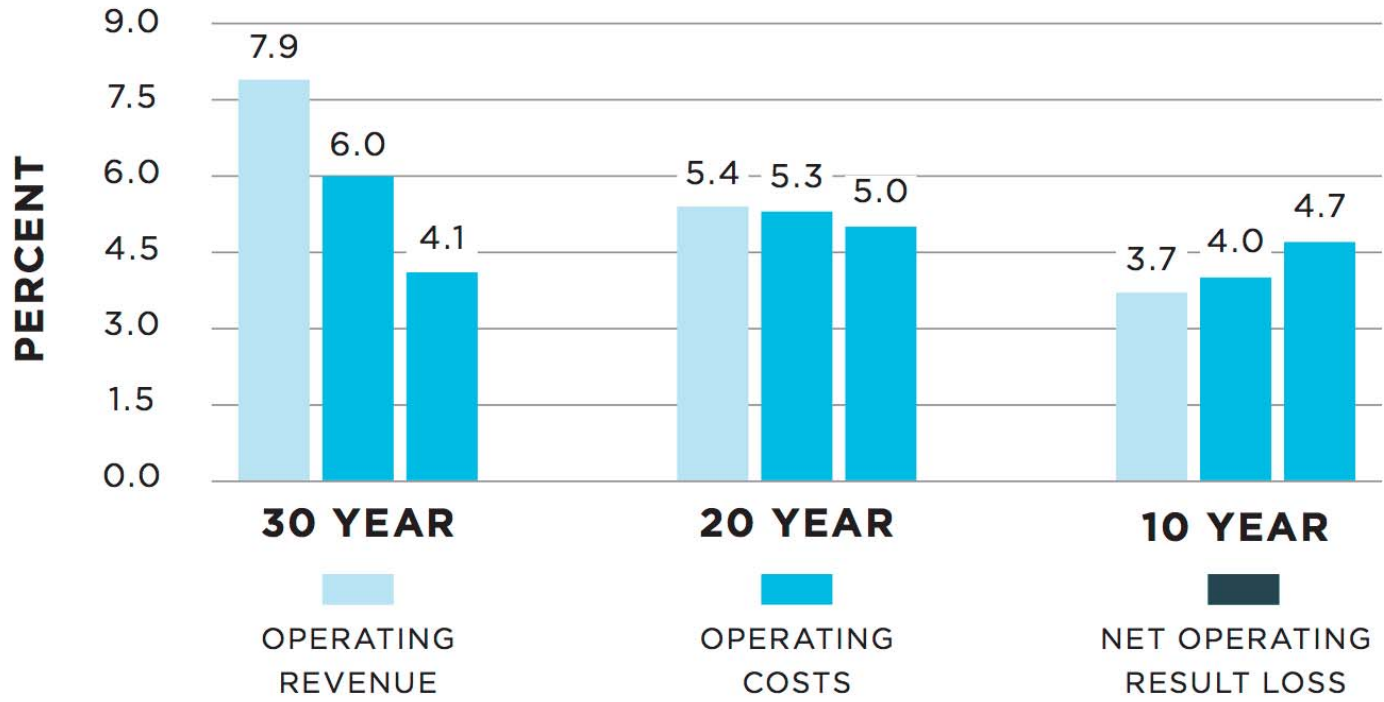


## ANNUAL ASSESSMENT NOTES

- In 2017, the \$1,900 total annual assessment was the same as 2016.
- From 2009 to 2012 (four consecutive years), the operating portion of annual assessment was held flat at \$695.
- Over the past 20 years (1996 to 2016), the association's replacement reserve fund balance has improved by over \$6 million, addressing past underfunding and an aging infrastructure of this now 45 year old association.

# OPERATING FUND GROWTH RATE BY COMPONENT

1987 - 1997 - 2007 - 2017 BUDGET      COMPOUNDED ANNUAL GROWTH RATE



- ### NOTABLE AMENITY FACILITIES GROWTH
- The Lodge Restaurant & Pub built in 2005
  - Trout Creek Recreation Center built in 1994, expanded in 2005
  - Alder Creek Adventure Center built in 2015
  - Euer Valley, Trails, Bikeworks
  - Cross Country Skiing added
  - Concerts changed from outsourced to in-house production
  - Number of Improved Lots has increased (fewer vacant lots now)

### OPERATING COSTS TO OPERATING REVENUE

1987	266%	1997	162%	2007	152%	2017	157%
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# 2018 Budget Strategic Planning Guidance

- ▶ G03 link <http://www.tahoedonner.com/wp-content/uploads/2017/02/Item-C-G03-2018-Strategic-Planning-Guidance.pdf>

# 2018 Budget - Board strategic Planning Guidance

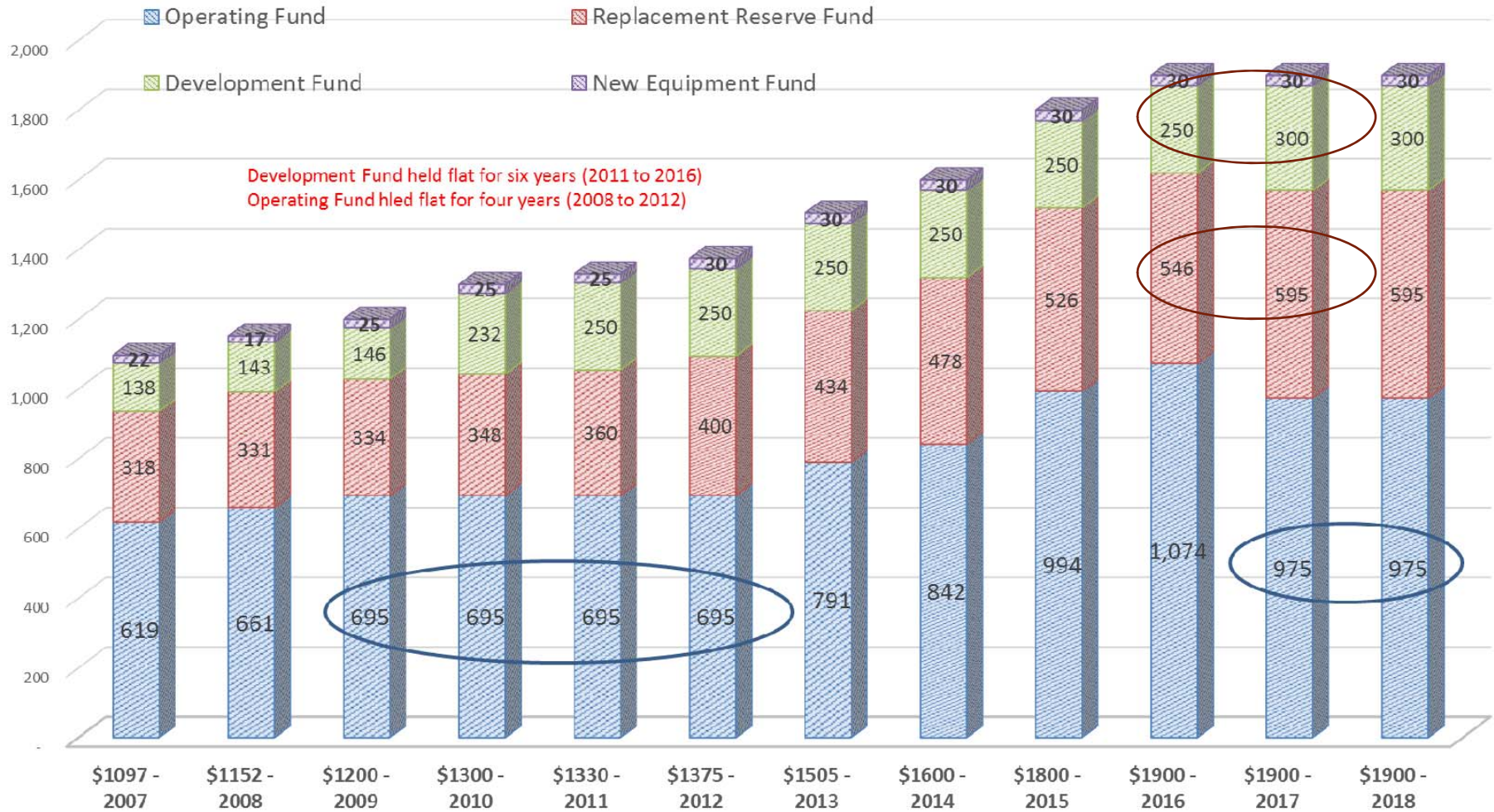
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1. In December 2017, as part of 2018 Budget Assumptions:
  - a. Transfer Operating Funds of \$\_\_\_\_\_ to Replacement Reserve Fund
  - b. Transfer Operating Funds of \$\_\_\_\_\_ to Development Fund
  - c. Hold in Operating Fund \$\_\_\_\_\_ or Decrease 2018 OPFd AA
2. No increase in 2018 Annual Assessment (AA), which may require more aggressive revenue assumptions and or cost control service level impacts
3. With ~25% Funded Reserve, hold Replacement Reserve portion of AA
4. Strategic plan priorities reviewed, refined, validated
5. Development Fund values time over increasing funding level
6. Identify Replacement Reserve major improvement plans for Board validation and consider delaying reserve projects longer than normally scheduled
7. Review, may change for 2018: Transfer Fee, Recreation Fee, or Daily Guest \$8  
(no change in Member \$6 daily entry fee)
8. Public Amenities – target Public prices for greater increases, minimize Member prices increases where practical
9. Private Amenities – minimize Member price increases where practical





# Annual Assessment per owner - 2018 Draft



# Annual Assessment per owner



## Compounded Annual Growth Rates (CAGR)

	<u>5 Year</u> 2013>2018	<u>10 Year</u> 2008>2018	<u>15 Year</u> 2003>2018	<u>20 Year</u> 1998>2018
<u>Total AA</u>	4.8%	5.1%	4.8%	5.8%
Operating	4.3%	4.0%	2.8%	4.5%
Reserve	6.5%	6.0%	6.9%	7.4%
Development	3.7%	7.7%	12.7%	9.1%
New Equipment	0.0%	5.8%	1.5%	0.9%
<i>the 3 Capital Funds</i>	5.3%	6.5%	7.9%	7.7%

Talking Points:  
 Looking long term, under-funding of reserves and more operations  
 Looking near term, drought impacts and regulatory cost pressures

# 2018 Budget - Development Fund



(includes \$1.8 Million 2017 transfer in) Forecast 12/31/2017 Balance \$ 3,522,000

2018 Assessment Contribution ( @ \$300 / owner) 1,942,000

additional Operating Fund Transfer IN	TBD	-
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### 2018 Expenditures:

Mailbox Clusters, planning	
Employee Housing, planning	
Downhill Ski - Daylodge/SkierServices/Lifts, Planning	
Trout Creek Recreation Facility, Remodel - soft/hard DFportion	
Equestrian, final phases	
Trails, new trail(s) per trails master plan	
Open Space - Glacier Way Trailhead, planning	
Open Space - two warming huts (yurts or other)	
Land Acquisition, Other Projects, Cost Allocation, Contingency	
Cost Allocation	

**draft**

TL Spend -

Interest Income/BDExp/Taxes, NET

Budget 12/31/2018 Balance \_\_\_\_\_

CFP - long term saving for DHSki building replacement/addition and other projects

# 2018 Budget – New Equipment Fund



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## 2018 Budget draft 9/11/2017

Forecast 12/31/2017 Balance	<u>\$ 64,000</u>	
2018 Assessment Contribution	194,000	
<b>2018 Expenditures:</b>		
Currently identified items	173,000	<i>next page</i>
Contingency	<u>40,000</u>	
TL Spend	<u>213,000</u>	
Budget 12/31/2018 Balance	<u>\$ 45,000</u>	



# 2018 Budget – New Equipment Fund – 2018 Spend

[Link](#)

**Preliminary 2018 NME**  
9/12/2017

**2018 NME Totals**      **\$ 213,000**  
**Project Count**      **18**



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Component		Location	Type	Est. 2017 BUDGET
HVAC for Mezzanine	1	Administration	C	\$ 25,000
E-Bikes	1	Bikeworks	C	\$ 15,000
Bear Boxes	1	Campground	C	\$ 8,000
Rolling Canoe Racks	1	Day Camps	C	\$ 3,000
Bollards and Chains (Lots 1 and 4 )	1	DHSKI	C	\$ 8,000
Driving Range Mats - Lower Tier	1	Golf Ops	C	\$ 4,600
Artificial Turf - Complete along fence to parking lot	1	Marina	C	\$ 15,000
Cellphone Booster - Alder Creek	1	MIS	C	\$ 27,000
Quick Service Digital Menu Signage (Alder Creek & DHSKI	1	MIS	C	\$ 7,000
Pickleball windscreen	1	Tennis	C	\$ 2,000
Water Fountain/Bottle Filler/Utility Sink	1	Tennis	C	\$ 3,000
Banquet - Sound Buffering Walls	1	The Lodge	C	\$ 5,000
VHF Handheld Radios - 6	1	Trails	C	\$ 5,000
4x4 S/S Work Utility Vehicle - Summer/Winter Maint	1	Trails	C	\$ 15,000
4x4 S/S Attachments for Summer/Winter Maintenance	1	Trails	C	\$ 15,000
Phone App - Summer Trail Map	1	Trails	C	\$ 5,000
New Gate - Crabtree/ 7 C's	1	Trails	C	\$ 5,000
Marco Polo Grill Sunsetter Shade Cover	1	Trout Creek	C	\$ 5,000
<b>Contingency</b>				<b>\$ 40,400</b>
<b>2018 NMEF Totals</b>	<b>18</b>			<b>\$ 213,000</b>

# 2018 Budget – Replacement Reserve Fund



	2017 Budget	2018 Budget
Operating Fund Transfer IN		-
Beginning Balance (A)	\$ 7,500,000	10,006,000
2018 Beg Bal includes \$1.5 million 2017 transfer in (in anticipation of Snowbird Lift acceleration)		
Current Replacement Cost	48,102,748	50,848,593
Fully Funded study value (B)	28,118,084	30,838,342
ratio to CRC	58%	61%
Percent Funded (A/B)	26.7%	32.4%

Resolution 2013-3, Replacement Reserve Fund -  
policy establishes a % funded minimum of 25%

For 2017 Budget, a full reserve study (including physical inspections) was completed (every 3 years).  
For 2018 Budget, a comprehensive update was performed.



# 2018 Budget – Replacement Reserve Fund



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## Resolution 2013-3, Replacement Reserve Fund Minimum Balance Test

Total Property & Equipment	\$ 74,227,626	*
Less Land and Land improvements	<u>(9,239,805)</u>	*
Net Replc Reserve Assets policy test amount	64,987,821	
policy test %	10%	
Policy minimum balance in Repl Reserve Fund	<u>\$ 6,498,782</u>	
Forecasted Balance 12/31/2017	\$ 10,006,000	<i>above policy Minimum</i>
Forecasted Balance 12/31/2018, per 2018 Budget Draft	\$ 7,742,000	<i>above policy Minimum</i>

\*per Audit Report 12/31/2016, footnote 4.



# 2018 Budget – Replacement Reserve Fund

	2017 Budget	2017 Forecast	2018 Budget
(F) Beginning Balance	\$ 7,500,000	\$ 7,903,233	\$ 10,006,000
Assessment Contribution	3,852,000	3,852,000	3,852,000
Operating Fund Transfer IN	-	1,500,000	
Operating Fund Transfer IN	-		
Expenditures	(3,701,000)	(3,385,233)	(6,350,000)
Disposal of Assets proceeds	30,000	30,000	30,000
Interest Income/BDExp/Taxes	41,000	106,000	49,000
Budget YE Balance	\$ 7,722,000	\$ 10,006,000	\$ 7,587,000

(F) the beginning balance is Forecasted in fall of preceding year during budget cycle.  
 For the 2017 Forecast, the actual beginning balance is used.

For 2018 Budget, a full reserve study (including physical inspections) was completed (every 3 years), not just an update

# Operating Fund – Members equity surplus



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- ▶ Surplus drivers: loss recovery success and record Summer 2015, December 2015 record results, and record revenues every month of 2016. And Strong winter 16/17 *Cannot count revenue twice.*
- ▶ Transfers made in 2017 - \$3.3 Million
  - ▶ \$1,500,000 to Replacement Reserve Fund (snowbird lift accelerated to 2018)
  - ▶ \$1,800,000 to Development Fund (savings for DHSki building replacement)
- ▶ Currently YTD August NOR is favorable \$1 million
- ▶ Which places ME balance at \$2.1 million
- ▶ Minimum \$500,000 balance, per policy
- ▶ Currently ME is above target 10% of Revenues or \$1,240,000 by \$860,000
- ▶ Options –
  - ▶ Make no additional transfers in 2017, hold in Operating Fund
  - ▶ Other \_\_\_\_\_

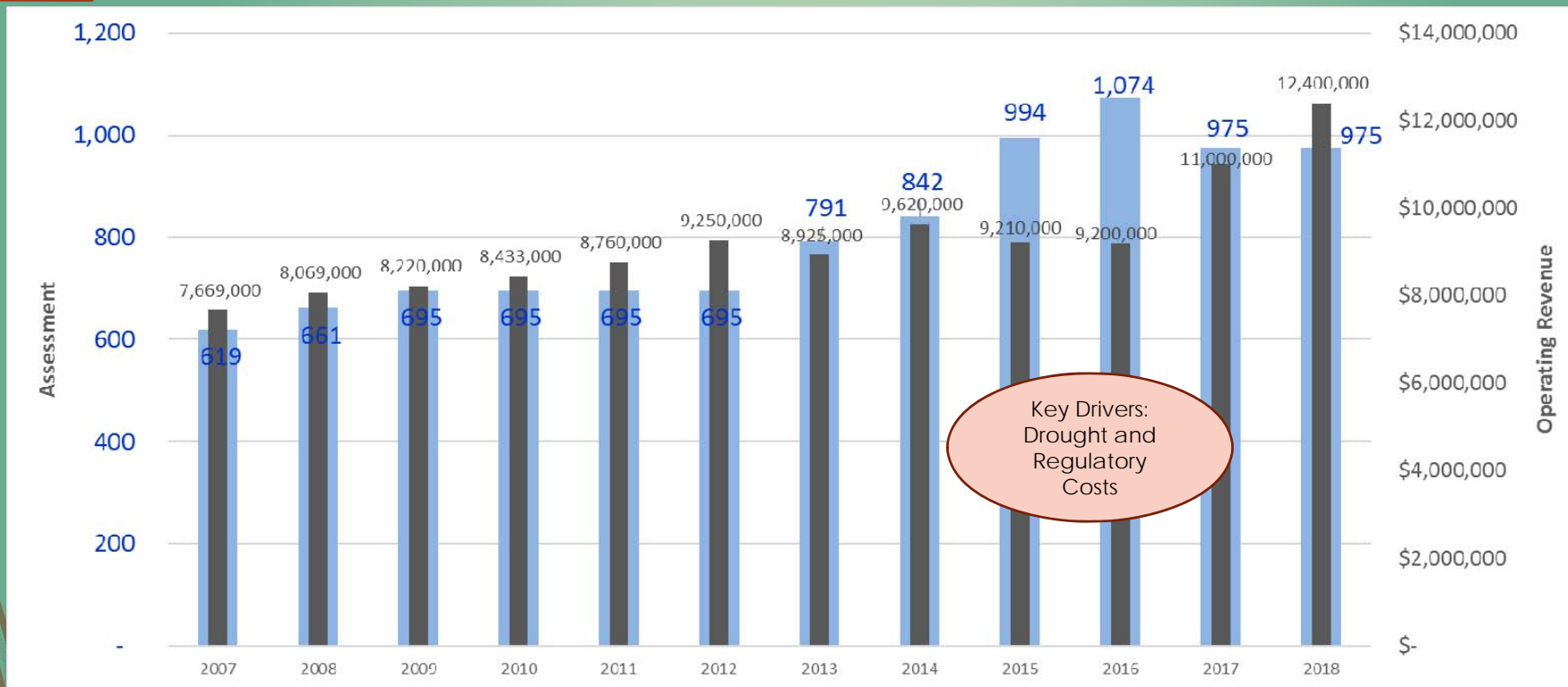


# Operating Fund - methodology

- ▶ Top Down and Bottom Up Drivers
- ▶ Strategic Planning Guidance
- ▶ Normalization starting point, 3-Year Average adjusted for known Baseline changes
- ▶ Drivers for 2018 (change drivers impacting Revenue and Costs, by Department)
  - ▶ Pricing changes – revenues and costs
  - ▶ Capital impacts -
  - ▶ Merit impacts – isolate this driver, capped
  - ▶ Strategic
  - ▶ Regulatory
  - ▶ Other



# Operating Fund - Operating FUND portion of Annual Assessment and Operating Revenues

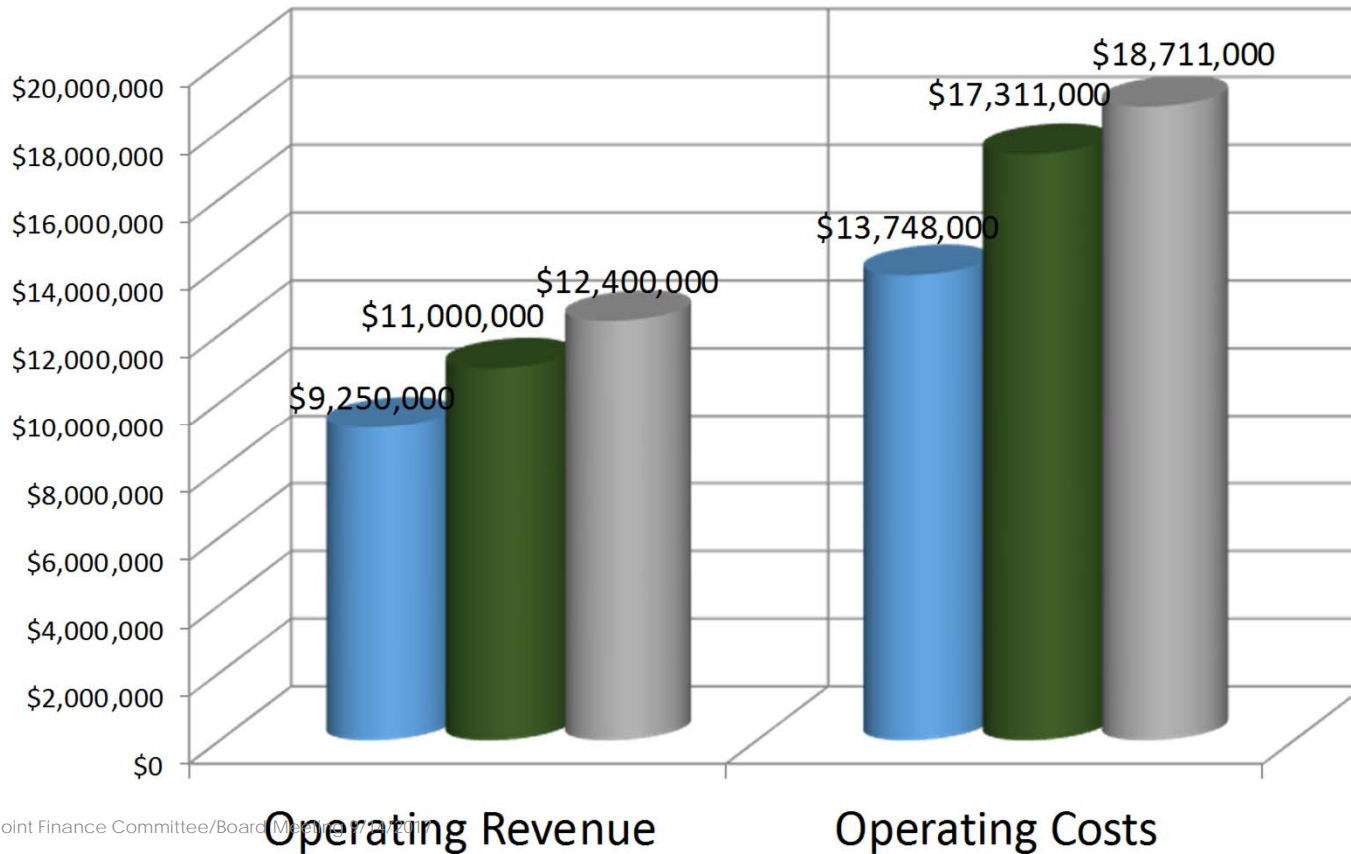


# Operating FUND

Being an HOA, Operating Costs are Greater than Operating Revenues.....

if both grow at 3%, Costs growth in Dollars is **greater** than the Revenue growth in Dollars

$$\begin{aligned}
 &\$ 11,000,000 \times 3\% = \$ 330,000 \text{ rev} \\
 &\$ 17,311,000 \times 3\% = \$ 519,000 \text{ cost} \\
 &\qquad\qquad\qquad \$ 189,000 \text{ net cost}
 \end{aligned}$$



- 2012 B
- 2017 B
- 2018 B



OR%OC  
 67% B'12  
 64% B'17  
 66% B'18





# Operating Fund - Revenue

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- \$ 11,473,000 Three Year simple average (2015 Actual, 2016 Actual, 2017 Forecast) (1 drought yr)
- 229,000 + past years pricing changes impact of ~2% overall
- 78,000 + net other misc. adjustments for know trends/changes
- \$ 11,780,000 = Baseline for 2018 before Drivers [*BL for Budget 2017 \$9,942,000 (2 drought years)*]
- 329,000 Pricing changes 3.0% overall impact (notables DHSki, XCSki, Guest without Member \$16)
- 242,000 Capital impacts (Downhill Ski beyond Baseline for Snowmaking investment)
- 12,000 Capital impacts (all other, misc , \$5,000 Equestrian)
- 7,000 Strategic impacts (misc)
- 30,000 Regulatory impacts (F&B menu prices ~ 1% to address regulatory costs increases)
- \$12,400,000 = Budget 2018 Operating Revenue



# Operating Fund – Payroll Direct

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- ▶ \$ 9,283,000 2017 Forecast
- ▶ (144,000) -adjust for baseline revenue & known changes/vacancies etc. by department
- ▶ \$ 9,139,000 = Baseline for 2018 before Drivers
- ▶ 251,000 Merit increases 3.0%, net overall 2.8%
- ▶ 38,000 Capital impacts
- ▶ 30,000 Strategic impacts
- ▶ 180,000 Regulatory impacts (primarily CA MinWage; plus compression and market)
- ▶ \$ 9,638,000 = Budget 2018 Payroll Direct

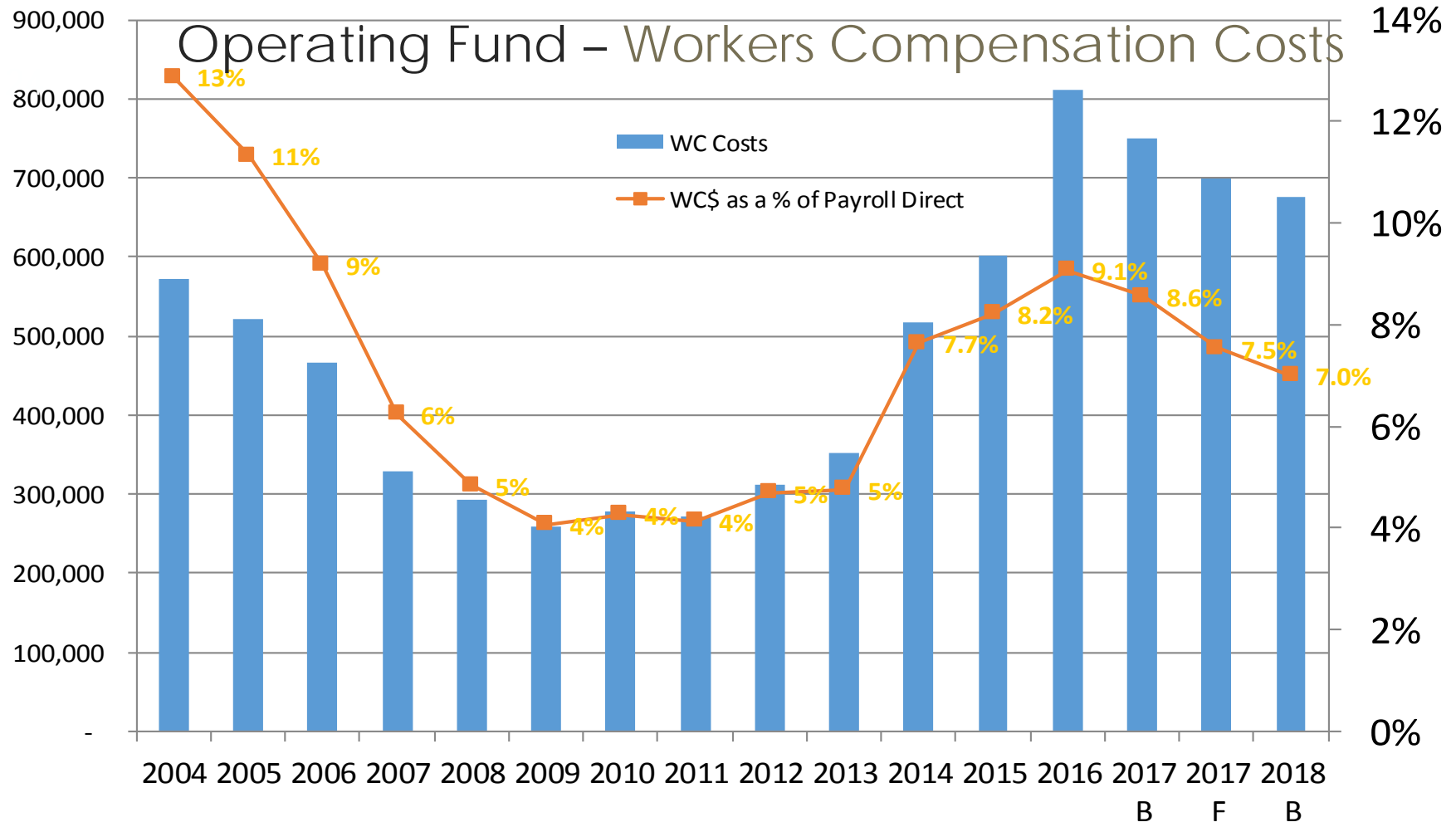


# Operating Fund – Payroll Burden

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	2015 Actual	2016 Actual	2017 Budget	2017 Forecast	2018 Budget	
Payroll Taxes	\$ 754,495	\$ 936,449	\$ 950,000	\$ 1,007,000	\$ 1,040,000	
Workers Comp	601,048	811,101	750,000	700,000	675,000	< favorable renew
Health Insurance	533,972	589,506	1,050,000	900,000	1,000,000	< 7% premium inc
Retirement	149,544	144,395	150,000	145,000	205,000	< safe harbor plan
<b>Total Pay Burden</b>	<b>\$ 2,039,059</b>	<b>\$ 2,481,451</b>	<b>\$ 2,900,000</b>	<b>\$ 2,752,000</b>	<b>\$ 2,920,000</b>	
<b>Payroll Direct</b>	<b>\$ 7,309,399</b>	<b>\$ 8,930,137</b>	<b>\$ 8,756,000</b>	<b>\$ 9,282,989</b>	<b>\$ 9,638,000</b>	
PT%	10.3%	10.5%	10.8%	10.8%	10.8%	
WC%	8.2%	9.1%	8.6%	7.5%	7.0%	
HI%	7.3%	6.6%	12.0%	9.7%	10.4%	
RM%	2.0%	1.6%	1.7%	1.6%	2.1%	
TL PB%	27.9%	27.8%	33.1%	29.6%	30.3%	
<b>Operating Revenue</b>	<b>8,681,085</b>	<b>12,771,032</b>	<b>11,000,000</b>	<b>12,968,376</b>	<b>12,400,000</b>	
<b>Payroll Direct % Rev</b>	<b>84%</b>	<b>70%</b>	<b>80%</b>	<b>72%</b>	<b>78%</b>	

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# Operating Fund – Group Health Insurance



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- ▶ Board authorized full time year-round benefited positions
  - ▶ 2016 – 71 employees, consistent for several years
  - ▶ 2016B – 85 employees, added 15 due to Federal Affordable Care Act impact
  - ▶ 2017B – 91 employees, with current ACA calculations, ~21p qualify ACA
  - ▶ 2018B – 91 employees, with current ACA calculations, ~21p qualify ACA
- ▶ 2017 Budget
  - ▶ Assumed 82ee enrolled of 91ee Authorized (*90% enrollment rate*)
- ▶ 2017 Forecast
  - ▶ Averaging ~60ee enrolled (vacancies, turnover, turndowns, other)
  - ▶ YTD savings \$215,000/36% to Budget
- ▶ 2018 Budget
  - ▶ Assumes 82 participants,  $82/91 = 90\%$  enrollment rate
  - ▶ Known, Premium renewal increase 7% Medical; 8% Dental & 0% Vision
  - ▶ No change in 75% Employer/ 25% Employee premiums cost split
  - ▶ Contingency is at a *medium level* for this volatile significant cost component for 2017B and 2018B

# Operating Fund – Expenses



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	2016 Actual	2017 Budget	2017 Forecast	2018 Budget
Utilities	\$ 914,593 21%	\$ 950,230 22%	\$ 945,000 20%	\$ 995,000 21%
R&M Bldg/Grnds/Equip	515,406 12%	478,000 11%	600,000 13%	530,000 11%
Insurance (GL/PropCas)	401,718 9%	411,000 10%	415,000 9%	450,000 10%
Forestry Contract Work	285,932 7%	236,000 5%	245,000 5%	255,000 5%
Taxes, Property/Income	214,869 5%	242,000 6%	245,000 5%	250,000 5%
Staff Expenses	297,205 7%	284,000 7%	269,000 6%	285,000 6%
Credit Card Fees	259,149 6%	207,000 5%	267,000 6%	248,000 5%
Advertising	119,863 3%	127,000 3%	127,000 3%	135,000 3%
Janitorial Svcs/Supplies	174,792 4%	101,000 2%	101,000 2%	104,000 2%
Printing, TDNews/Brochure	142,235 3%	147,000 3%	162,000 3%	165,000 4%
License Fees Permits	117,076 3%	102,000 2%	107,000 2%	110,000 2%
Fuel & Oil	120,451 3%	139,000 3%	165,000 4%	145,000 3%
Linen Service	111,005 3%	103,000 2%	115,000 2%	105,000 2%
R&M Golf Course	52,462 1%	59,000 1%	59,000 1%	60,000 1%
Employee Housing	- 0%	136,000 3%	130,000 3%	130,000 3%
All Other	583,384 14%	572,770 13%	742,000 16%	670,000 14%
<b>Total Op Expenses</b>	<b>\$ 4,310,140 100%</b>	<b>\$ 4,295,000 100%</b>	<b>\$ 4,694,000 100%</b>	<b>\$ 4,637,000 100%</b>
2018 Budget variance	326,860 8%	342,000 8%	(57,000) -1%	

Rent Revenue of \$90,000  
Net Cost of \$40,000





# Annual Assessment per owner



## Budget by Fund

	<u>2014</u>		<u>2015</u>		<u>2016</u>		<u>2017</u>		<u>2018</u>		2017 to 2018 Change	
	Amount	Pctg	Amount	Pctg	Amount	Pctg	Amount	Pctg	Amount	Pctg	Amount	Pctg
Total AA	\$ 1,600	100%	\$ 1,800	100%	\$ 1,900	100%	\$ 1,900	100%	\$ 1,900	100%	\$ -	0.0%
Operating	842	53%	994	53%	1,074	55%	975	51%	975	51%	-	0.0%
Reserve	478	30%	526	30%	546	29%	595	31%	595	31%	-	0.0%
Development	250	16%	250	16%	250	14%	300	16%	300	16%	-	0.0%
New Equipment	30	2%	30	2%	30	2%	30	2%	30	2%	-	0.0%



# Annual Assessment Revenue Amounts



## Budget by Fund

		<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2017 to 2018</u>	
		6472	6472	6472	6473	6473	Amount	Pctg
# units		6472	6472	6472	6473	6473		
Total AA		\$ 10,356,000	\$ 11,650,000	\$ 12,297,000	\$ 12,299,000	\$ 12,299,000	\$ -	0.0%
Operating	B	5,450,000	6,433,000	6,951,000	6,311,000	6,311,000	-	0.0%
Reserve		3,094,000	3,405,000	3,534,000	3,852,000	3,852,000	-	0.0%
Development		1,618,000	1,618,000	1,618,000	1,942,000	1,942,000	-	0.0%
New Equipment		194,000	194,000	194,000	194,000	194,000	-	0.0%
Operating Revenue	A	\$ 9,620,000	\$ 9,210,000	\$ 9,200,000	\$ 11,000,000	\$ 12,400,000	\$ 1,400,000	12.7%
A to B ratio		1.77	1.43	1.32	1.74	1.96	0.22	12.7%

Reference metric:  $\$100,000 / 6473 = \$15.45$



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# Metrics Compilation –

Compounded Annual Growth Rate  
(CAGR)



## Tahoe Donner financials specific

- ▶ \$ 158 per Month Annual Assessment (consistent with 2016 and 2017)
  - ▶ \$81 per owner per month AA Operating portion (\$6.3 million)
  - ▶ \$77 per owner per month AA Capital portion (\$6.0 million)
- ▶ \$ 5.63 per Month Rec Fee per person with four persons
- ▶ \$ 6 Member private amenity access fee, per entry, if not on rec fee
- ▶ \$ 8 Guest with Member, private amenity access fee, per entry
- ▶ \$ 16 Guest without Member, private amenity access fee, per entry **NEW**

A note on Consumer Price Index - The CPI is a government statistic and while one indicator, is widely viewed more as a government serving index than a true measure of inflation. Further, Tahoe Donner Association is dealing with weather volatility, regulatory changes, and operating in one of the highest cost of living regions in the USA.

Every  
Number  
has a  
Story

Joint Finance Committee/Board Meeting 9/14/2017

# 2018 Budget – Board APPROVAL (in October)



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- ▶ Operating Fund
  - ▶ Excess Members Equity Transfer(s): None in 2016 or Budget 2017
  - ▶ Rates and Fees
  - ▶ Revenues, Cogs
  - ▶ Costs – Payroll, Payroll Burden, Expenses
- ▶ Replacement Reserve Fund
- ▶ Development Fund
- ▶ New Equipment Fund
- ▶ Annual Assessment
- ▶ Other *minor adjustment to & between departments allowed between 10/7 and final details/Budget Report. Examples include another change from Nonexempt(NE) to Exempt(E) due to ACA, Payroll Burden refinement between NE/E and or between departments.*