

DECISION PAPER



June 19, 2017

Issue: The year-end December 31, 2016 members' equity balance in the Operating Fund exceeds the policy target balance. This memo provides background discussion regarding options in handling this accumulated surplus.

Background:

Operating Fund

Members equity balance in the Operating Fund serves as a contingency funds balance. Per Policy 2013-04, the Members Equity minimum balance is \$500,000. The target balance is 10% of budgeted operating revenues, which for 2017 equates to a target balance of \$1,100,000. Members equity balance over time is as follows:

\$ 1,124,000 Actual 12/31/2014. Operating Fund members' equity balance (audited)
+ \$ 830,000 Actual 2015 NOR favorable to budget variance (audited)
= \$ 1,954,000 Actual 12/31/2015, Operating Fund members' equity balance (audited)
+ \$ 2,450,000 Actual 2016 NOR favorable to budget variance (audited)
= \$ 4,404,000 Actual 12/31/2016, Operating Fund members' equity balance (audited)
less 1,100,000 Operating Fund, policy "target" balance

equals \$3,304,000 in excess of target balance as of 12.31.2016

The April 2017 YTD members' equity has increased \$1,149,000 with favorable NOR results based on strong favorable performance to Budget YTD. This current year still has 8 months or 67% of year remaining. This YTD favorable serves as a material contingency for remaining unknown financial performance of 2017.

Replacement Reserve Fund

The 2017 Budget and current forecast ending balance for this fund is \$7,700,000.
The 2017 assessment funding to reserves was \$595 per owner and equates to \$3,852,000.
Looking to 2018, an increase of 4% equates to \$24 / \$155,000.
Looking to 2018, an increase of 10% equates to \$60/ \$388,000.

The 2017 Reserve Study funding plan, as review and approved in the 2017 Budget cycle called for increases in Reserve portion of Annual Assessment as follows:

2017 -9% | 2018 2019 and 2020 - 10% each year | 2021+ no increases
Per Policy 2013-03, the reserve fund funding level shall increase a minimum of 4% each year until % funded exceeds 25%.

Attachment A provides Budget 2017 Reserve Study funding plan by year.

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Each year the reserve study is updated for known changes in each component’s cost, service life, as well as, addition of components due to new capital additions. One potential material change for the reserve study update for 2018 is the Snowbird lift replacement at Downhill Ski Area. The current reserve study has Snowbird components in various years, but does not contain a full replacement of the lift. Adding a full lift replacement, in 2018 or 2019, is currently estimated to add approximately \$1,500,000 to the 100% funded calculation metric.

A 2017 transfer into this fund bolsters the fund balance numerator of the percent funded calculations and could offset the need to increase this portion of the annual assessment, at least for 2018, as well as, cover all or a portion of the potential Snowbird lift replacement impact.

Snowbird Lift replacement and reserve infusion impacts on 2018’s percent funded are exhibited as follows:

		RR Fund Bal	100% Funded	% Funded
Per 2017 Budget		7,500,000	28,188,000	26.6%
Per 2017 Budget	For 2018	7,700,000	30,953,000	24.8%
Proforma A	For 2018, with Snowbird Lift \$1.5 impact	7,700,000	32,453,000	23.7%
Proforma B	A and \$1m transfer	8,700,000	32,453,000	26.8%
Proforma C	A and \$500k transfer	8,200,000	32,453,000	25.3%

Development Fund

This fund ended December 31, 2015 with a members’ equity balance of \$238,000.

This fund ended December 31, 2016 with a members’ equity balance of \$499,000.

The 2017 funding via Assessment was \$300 per owner or \$1,942,000.

This fund’s projected ending December 31, 2017 members’ equity balance is \$1,400,000.

Considering the size of the Association (over \$74 Million in Assets, over \$41 Million in net PP&E), this is generally viewed as a low balance in the fund. Further, there are significantly more projects identified in the Association Master Plan than dollars available in this fund.

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Concept of using Operating Fund Surplus as revenue in 2018 for Operating Fund

The members equity cannot be used as a revenue source for 2018 or any future year. Accounting principals do not allow for the counting of revenue twice. Factoring the use of surplus equity would not be a balanced budget for 2018. Transferring funds to known capital needs is in effect offsetting the known need to increase the capital funds portion of the annual assessment.

Options:

1. Funds in the Replacement Reserve Fund a 1-way, in that once in the Replacement Reserve Fund the funds can only be used for reserve expenditures. The Dev Fund funds could be transferred back to Operating Fund or to Replacement Reserve Fund.
2. The Board can continue to hold the surplus equity in the Operating Fund, transfer all the funds to Replacement Reserve Fund or all to Development Fund, or a portion to each in any amount combination.
3. Transferring \$1,000,000 to Replacement Reserve Fund bolsters this funds balance for the impact of the Snowbird lift, as well as, provides relief on the funding plan in Budget 2017 forecasted for 2018 increase of 10%/\$60 (\$388,000) in that portion of Annual Assessment.

Recommendation:

Option 3: Effective June 23, 2017, the Board resolves to transfer \$3.3 million from Operating Fund Members Equity to: Replacement Reserve Fund \$1,000,000 and Development Fund \$2,300,000.

Finance Committee Review:

On June 15, 2017, during the regular monthly Finance Committee meeting, the committee reviewed and discussed this decision paper and supported the recommendation above (8 Yay 0 Nay vote).

Prepared By: Michael R. Salmon, Director of Finance, 6/19/2017

Board Meeting Date: June 23, 2017

General Manager Approval to Place on the Agenda: _____

Tahoe Donner Association DRAFT
 Thirty Year Cash Flow/Capital Budget Summary
 January 1, 2017
 Financial Exhibit

Fiscal Year Beginning		1/1/2017
Number of Units		6,473
Fractional Ownership Shares		1
Annual Weeks Available/Share		1
Unit Interests		6,473
Previous Year Annual Assessments		\$ 3,534,000
Inflation Rate		3.00%
Tax Rate on Investment Income		8%
Interest Rate on Investments		0.50%
1/1/2017	Annual Assessment/Unit Interests	\$ 595.10

Year	Percent Change	Beginning Balance	Fully Funded	Percent Funded	Dollar Change	Misc. Income	Special Assessment	Debt Service	Annual Assessment	Estimated Interest	Tax on Interest	Annual Expenditure	Reserve Contingency		Ending Balance
													0%		
1/1/2017	9.00%	7,500,000	28,188,084	26.61%	318,060	0	0	0	3,852,060	37,909	(3,033)	(3,700,866)	-	7,686,071	
1/1/2018	10.00%	7,686,071	30,953,575	24.83%	385,206	0	0	0	4,237,266	37,794	(3,024)	(4,472,205)	-	7,485,902	
1/1/2019	10.00%	7,485,902	31,486,344	23.78%	423,727	0	0	0	4,660,993	27,165	(2,173)	(4,185,283)	-	7,986,603	
1/1/2020	10.00%	7,986,603	32,753,709	24.38%	466,099	0	0	0	5,127,092	28,841	(2,307)	(4,535,448)	-	8,604,781	
1/1/2021	0.00%	8,604,781	33,182,887	25.93%	-	0	0	0	5,127,092	32,405	(2,592)	(4,373,297)	-	9,388,388	
1/1/2022	0.00%	9,388,388	33,895,409	27.70%	-	0	0	0	5,127,092	35,068	(2,805)	(4,803,572)	-	9,744,170	
1/1/2023	0.00%	9,744,170	34,343,267	28.37%	-	0	0	0	5,127,092	61,259	(4,901)	(4,490,617)	-	10,437,003	
1/1/2024	0.00%	10,437,003	35,684,502	29.25%	-	0	0	0	5,127,092	41,388	(3,311)	(4,434,384)	-	11,167,787	
1/1/2025	0.00%	11,167,787	36,431,141	30.65%	-	0	0	0	5,127,092	43,483	(3,479)	(4,968,893)	-	11,365,990	
1/1/2026	0.00%	11,365,990	37,429,491	30.37%	-	0	0	0	5,127,092	43,122	(3,450)	(5,432,414)	-	11,100,340	
1/1/2027	0.00%	11,100,340	37,992,176	29.22%	-	0	0	0	5,127,092	43,445	(3,476)	(4,866,130)	-	11,401,271	
1/1/2028	0.00%	11,401,271	39,196,286	29.09%	-	0	0	0	5,127,092	43,087	(3,447)	(5,504,863)	-	11,063,140	
1/1/2029	0.00%	11,063,140	40,363,202	27.41%	-	0	0	0	5,127,092	42,877	(3,430)	(4,997,062)	-	11,232,617	
1/1/2030	0.00%	11,232,617	41,745,162	26.91%	-	0	0	0	5,127,092	41,466	(3,317)	(5,771,566)	-	10,626,292	
1/1/2031	0.00%	10,626,292	43,312,249	24.53%	-	0	0	0	5,127,092	39,939	(3,195)	(5,255,578)	-	10,534,549	
1/1/2032	0.00%	10,534,549	45,429,278	23.19%	-	0	0	0	5,127,092	39,384	(3,151)	(5,288,668)	-	10,409,206	
1/1/2033	0.00%	10,409,206	47,221,246	22.04%	-	0	0	0	5,127,092	58,928	(4,714)	(6,429,659)	-	9,160,853	
1/1/2034	0.00%	9,160,853	48,323,255	18.96%	-	0	0	0	5,127,092	31,922	(2,554)	(5,492,085)	-	8,825,227	
1/1/2035	0.00%	8,825,227	49,967,777	17.66%	-	0	0	0	5,127,092	29,851	(2,388)	(5,626,788)	-	8,352,995	
1/1/2036	0.00%	8,352,995	51,742,034	16.14%	-	0	0	0	5,127,092	28,001	(2,240)	(5,451,565)	-	8,054,282	
1/1/2037	0.00%	8,054,282	53,884,551	14.95%	-	0	0	0	5,127,092	22,964	(1,837)	(6,666,526)	-	6,535,975	
1/1/2038	0.00%	6,535,975	55,792,221	11.71%	-	0	0	0	5,127,092	18,869	(1,510)	(5,467,463)	-	6,212,963	
1/1/2039	0.00%	6,212,963	58,500,518	10.62%	-	0	0	0	5,127,092	13,834	(1,107)	(7,412,293)	-	3,940,490	
1/1/2040	0.00%	3,940,490	59,117,085	6.67%	-	0	0	0	5,127,092	9,099	(728)	(9,456,135)	-	(380,182)	
1/1/2041	0.00%	(380,182)	58,200,243	-0.65%	-	0	0	0	5,127,092	98	(8)	(8,396,027)	-	(3,649,027)	
1/1/2042	0.00%	(3,649,027)	58,530,911	-6.23%	-	0	0	0	5,127,092	0	0	(10,838,536)	-	(9,360,471)	
1/1/2043	0.00%	(9,360,471)	57,340,621	-16.32%	-	0	0	0	5,127,092	0	0	(10,653,054)	-	(14,886,433)	
1/1/2044	0.00%	(14,886,433)	57,268,599	-25.99%	-	0	0	0	5,127,092	0	0	(7,919,226)	-	(17,678,567)	
1/1/2045	0.00%	(17,678,567)	59,855,490	-29.54%	-	0	0	0	5,127,092	0	0	(11,190,652)	-	(23,742,127)	
1/1/2046	0.00%	(23,742,127)	61,359,617	-38.69%	-	0	0	0	5,127,092	0	0	(7,487,292)	-	(26,102,327)	