

DECISION PAPER



December 13, 2018

Review and Update Of TDA Board of Directors Resolution 2013-03, Replacement Reserve Policy

Issue: The Finance Committee, at the direction of the Board and in accordance with the Association's commitment to review and update resolutions, has reviewed Resolution, 2013-03, Replacement Reserve Fund Policy at TAB A. Final DRAFT and updated resolution entitled Administrative Resolution 2019-1, Replacement Reserve Fund Policy is at TAB B.

Background:

- The current version of the Replacement Reserve Fund Policy was implemented in 2013. The Resolution is now 5 years old and this review affirms our commitment to review financial policies once every five years.
- The Policy has served the Association well over the past 5 years. All indications are that it will continue to be applicable and has established a sustainable level of replacement reserve funding that provides the Association the ability to maintain, repair, restore, and replace common area facility major components in the future.
- The current Policy established that the RRF allocation of the annual assessment would be increased 4% each year until we achieve a 25% Percent Funded level and the RRF balance is equal to 10% of our Net Replacement Reserve Assets. This has been accomplished and we can now establish that we will maintain this balance as our minimum replacement reserve baseline. We are at a sustaining level and future adjustments to the RRF will have to be maintained to keep the Fund at this balance as we go forward. Wording to this effect has been added.
- There is no significant change regarding the intent of the existing Policy.

Key Provisions/Changes:

- Citation has been added on page 2 to reference the State of California guidelines as a significant reference. Moved out of text to footnote.
- One change in paragraph order made in FUNDING PLAN section improve sequencing of minimum reserve balance concepts.
- Modified wording in 1st and 2nd paragraphs on page 4 to reflect improved net definition using terminology reflected in the source document (Property and Equipment Note in the Annual Audit – TAB C) for clarification.
- As needed, updated footnoted citations to reflect current titles and numbering that have changed since 2013.
- Other updates: Headers, updated signatories to reflect current Directors, added "Administrative" to title to reflect current cataloging of resolutions pertaining to financial matters.



DECISION PAPER



- Made formatting adjustments in font, type, margins, spacing to as to be consistent with format that has emerged over past five years.

Options:

1. Approve updated Resolution 2019-1 and review in 5 years (TAB B).
2. Reject updated Resolution 2019-1 and provide further guidance.
3. Revalidate existing Resolution 2013-03 and extend validity 5 years.

Recommendation: Approve the updated Resolution 2019-1, Option A.

Prepared By: Finance Committee, Resolution Review Subcommittee-John Dundas, Michael Eyton-Lloyd, Jim Stang, Corey Leibow and Mike Salmon, Dir Fin & Acctg, December 13, 2018

Reviewed By: Finance Committee, December 13, 2018

Board Meeting Date: January 26, 2019



BOARD APPROVED

ACTION ON June 21, 2018
VERIFIED Bonnie Watson

E.A. - TDA ASSOC.

**TAHOE DONNER ASSOCIATION
BOARD OF DIRECTORS**

RESOLUTION 2013-03

REPLACEMENT RESERVE FUND POLICY

WHEREAS, the Tahoe Donner Association is legally required to comply with the Davis-Stirling Common Interest Development Act, which is commonly referred to as Davis-Stirling, and,

WHEREAS, Davis-Stirling requires that common interest developments prepare and distribute financial information that includes a plan for funding the future maintenance, repair, restoration, or replacement of major common area components¹; and,

WHEREAS, the Tahoe Donner Association Board of Directors is responsible for the establishment of the annual assessment based upon preparation of an annual budget that estimates "...the total amount required to fund ... anticipated Common Expenses ... (including additions to any reserve fund established to defray the costs of future repairs, replacement or additions to the Common Facilities)..."²; and,

WHEREAS, Common Expenses, are defined to include "...any amounts reasonably necessary to fund reserves for the maintenance, repair, expansion and replacement of the Common Areas and Common Facilities..."³; and,

WHEREAS, the Tahoe Donner Association Board of Directors "...shall maintain any other accounts it shall deem necessary to carry out its purpose, including reserve accounts for replacement of capital improvements..."⁴; and,

WHEREAS, the following constitutes the Replacement Reserve Fund Policy of Tahoe Donner Association and supersedes all previously approved replacement reserve fund policies;

NOW THEREFORE, BE IT RESOLVED, that the Board of Directors of Tahoe Donner Association approves and adopts the following Replacement Reserve Fund Policy:

¹ Davis-Sterling Common Interest Development Act, ARTICLE 2, Section (a)(2)

² First Restated Declaration of Covenants and Restrictions of Tahoe Donner, Article IV, Section 2(a)

³ First Restated Declaration of Covenants and Restrictions of Tahoe Donner, Article I, Section 9

⁴ Restated Bylaws of Tahoe Donner Association, Article XII, Section 4

PURPOSE

The Replacement Reserve Fund is established as a reserve account in accordance with the provisions of Davis-Stirling, the Association's Governing Documents, and sound business practices, to be maintained and administered on an annual basis that provides and accounts for the financial resources required for the repair, restoration, replacement or maintenance of existing major common area components, exclusive of structure replacement.

Major common area components include the Association's Common Area and Facilities, as defined in the Association's Governing Documents, and any property and equipment with a value in excess of \$2,000.

The Replacement Reserve Fund is necessary to keep the Association's amenities and operational infrastructure from deteriorating and becoming functionally obsolete, to keep the community vibrant, to meet current operational demands, to enhance the benefit enjoyed by the ownership, and to protect each Owner's investment in the Association.

The Replacement Reserve Fund is also used in conjunction with and in addition to the reserves provided by the Development Fund to plan and execute capital improvement projects that are approved by the Board of Directors.

RESPONSIBILITY & AUTHORITY

It is the goal of the Association to maintain a consistent annual reserve allocation for the Replacement Reserve Fund. The Board shall exercise prudent fiscal management in maintaining the integrity of the Replacement Reserve Fund, and in adopting and maintaining the funding and expenditure plans.

The Board of Directors and the General Manager, to the extent authorized by the Board of Directors, will have the full authority and responsibility to administer the Replacement Reserve Fund in accordance with the terms and provisions contained herein. The Board of Directors has the authority to allow for specific exceptions to the stated parameters or restrictions, except those mandated by statute or those limited by the Governing Documents.

REPLACEMENT RESERVE STUDY

The key element of this Replacement Reserve Fund Policy is the Reserve Study conducted in accordance with the *Reserve Study Guidelines for Homeowner Association Budgets* promulgated by the Department of Real Estate of the State of California.

The Reserve Study is an analysis of all Association capital asset components and provides the basis for determining the replacement reserve funding requirements over a 30-year period. A comprehensive Reserve Study is performed every three years following a

diligent on site visual inspection of the Association's assets with annual Reserve Study updates in between as additions, deletions, and adjustments occur in facilities and components. The Reserve Study consists of two parts, the Physical Analysis and the Funding Analysis, as described below:

The Physical Analysis is an inventory of all of the common area components that the Association owns, leases, or rents with an estimated remaining life of 30 years or less. Each component is evaluated by location to include quantity, estimated useful life and remaining useful life, estimated year of replacement, current replacement cost and estimated future replacement cost. The number and value of components being tracked, analyzed, and funded will vary over time as facilities and components change.

Changes to the component listing are reviewed once a year, on or before September 1, by the Board of Directors while evaluating Replacement Reserve Fund requirements in advance of the preparation of the Funding Analysis and the annual budget. The Physical Analysis specifically excludes the replacement of entire buildings, which is the purpose of the Development Fund.

The Funding Analysis is an ongoing process that occurs as changes are documented in the Physical Analysis and culminates each year during the annual budget process in order to identify annual replacement reserve funding requirements, disclose limitations, establish assumptions related to management of the Fund, and identify the amount required for the annual allocation to the Replacement Reserve Fund. Assumptions such as interest rates, the rate of inflation, and useful lives incorporated into the budget are recommended by staff and approved by the Board of Directors.

The Replacement Reserve Fund is incorporated into the Association's Capital Funds Projection, which accounts for all capital projects that require funding. The Capital Funds Projection is updated annually in accordance with the annual Financial Planning and Budget Development Procedures.⁵

FUNDING PLAN

Funding for the Replacement Reserve Fund is provided as part of the Association's regular annual assessment. The annual allocation to the Replacement Reserve Fund will be recommended to the Board by the General Manager based on the results of the Physical Analysis and the Funding Analysis contained in the updated Reserve Study as part of each year's annual budget process. The Board will make the final determination with regard to the level of funding to be made to the Replacement Reserve Fund in conjunction with funding requirements for the Operating Fund and other capital funds and in the context of the Association's total annual assessment.

The annual Replacement Reserve Fund allocation shall be increased by a minimum of 4% each year until such time as the Percent Funded level exceeds 25% and

⁵ Board Resolution 98-6, Financial Planning and Budget Development Procedures, and subsequent revisions, if any

until the Replacement Reserve Fund balance is equal to or exceeds 10% of Net Replacement Reserve Assets.

Percent Funded is calculated in the Funding Analysis of the Reserve Study and as reported in the Association's Annual Budget Report. The Percent Funded formula is the Forecasted Beginning Replacement Reserve Fund Balance divided by the Fully Funded Value of the Total Current Replacement Costs for all components in the Reserve Study.

A minimum balance shall be maintained in the Replacement Reserve Fund that equates to 10% of the Association's Net Replacement Reserve Assets (Total Property and Equipment less Land and land improvements, as documented in the prior year's Independent Auditor's Report and accompanying year-end financial statements).

EXPENDITURES

Appropriate expenditures from the Replacement Reserve Fund include the repair, replacement, restoration and maintenance of, and additions to, or enhancements of the major components, which the Association is obligated to maintain.

Adoption of the Annual Budget by the Board, which includes the updated Reserve Study's Physical Analysis and Funding Analysis, and Replacement Reserve Fund allocation, along with a consolidated Capital Funds Projection, will constitute approval of funding for the designated capital improvement projects and Replacement Reserve Fund expenditures for the upcoming fiscal year, subject to approval authorization levels for individual expenditures.

Expenditure authorization levels are subject to the Budget Authority levels established by the Board of Directors⁶.

REPORTING

A summary of the results of the Reserve Study and the funding level being allocated to the Replacement Reserve Fund, along with the planned uses of those funds for the coming year, will be reported to Association Members as part of the Association's Annual Budget Report. Furthermore, the accounting of the actual expenditure of funds will be reported to Association Members as part of the Association's year-end Annual Report as required by the Governing Documents⁷.

BORROWING FROM THE REPLACEMENT RESERVE FUND

Borrowing from the Replacement Reserve Fund may be done in accordance with section 1365.5 of the California Civil Code, or applicable successor statute.

⁶ Corporate Resolution 2012-2, Resolution Regarding Budget Authority, and subsequent revisions, if any

⁷ Restate Bylaws of Tahoe Donner Association, Article XII, Section 5


The Board of Directors may authorize the temporary transfer of money from the Replacement Reserve Fund to the Association's Operating Fund, Development Fund, and/or New Machinery and Equipment Fund to meet short-term cash flow requirements or other designated expenditures. The Board shall make a written finding, recorded in the Board's minutes, explaining the reasons that the transfer is needed and describing when and how the money will be repaid to the Replacement Reserve Fund.

The transferred funds shall be restored to the Replacement Reserve Fund within one year of the initial transfer. The one-year period can be extended only if the Board makes a finding, supported by documentation, that a temporary delay in restoring the funds will be in the best interests of the Association. A special assessment, to recover the full amount of the expenditures, shall be levied if necessary to restore the funds, provided applicable member-approval requirements are met.

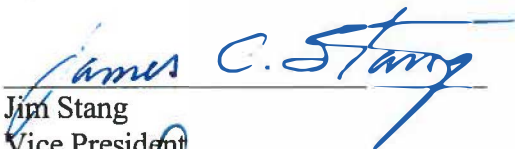
APPROVAL

Approval of the Replacement Reserve Fund Policy and any changes, amendments, or modifications thereafter, may only be accomplished at a properly noticed meeting of the Board, after a full reading of the policy in open session, with reasonable time allowed for property owner comment.


ACCEPTED AND DATED: June 21, 2013



Tom Johns
President



Jim Stang
Vice President



Richard Gander
Director



Steve Miller
Treasurer



Ron Wulff
Director



**TAHOE DONNER ASSOCIATION
BOARD OF DIRECTORS**

ADMINISTRATIVE RESOLUTION 2019-1

REPLACEMENT RESERVE FUND POLICY

WHEREAS, the Tahoe Donner Association is legally required to comply with the Davis-Stirling Common Interest Development Act, which is commonly referred to as Davis-Stirling; and,

WHEREAS, Davis-Stirling requires that common interest developments prepare and distribute financial information that includes a plan for funding the future maintenance, repair, restoration, or replacement of major common area components¹; and,

WHEREAS, the Tahoe Donner Association Board of Directors is responsible for the establishment of the annual assessment based upon preparation of an annual budget that estimates "...the total amount required to fund ... anticipated Common Expenses ... (including additions to any reserve fund established to defray the costs of future repairs, replacement or additions to the Common Facilities) ..." ²; and,

WHEREAS, Common Expenses, are defined to include "...any amounts reasonably necessary to fund reserves for the maintenance, repair, expansion and replacement of the Common Areas and Common Facilities..." ³; and,

WHEREAS, the Tahoe Donner Association Board of Directors "...shall maintain any other accounts it shall deem necessary to carry out its purpose, including reserve accounts for replacement of capital improvements..." ⁴; and,

WHEREAS, the following constitutes the Replacement Reserve Fund Policy of Tahoe Donner Association and supersedes all previously approved replacement reserve fund policies;

¹ Davis-Sterling Common Interest Development Act, CHAPTER 7, ARTICLE 3, Sections 5560-5580.

² First Restated Declaration of Covenants and Restrictions of Tahoe Donner, Article IV, Section 2(a).

³ First Restated Declaration of Covenants and Restrictions of Tahoe Donner, Article I, Section 9.

⁴ Restated Bylaws of Tahoe Donner Association, Article XII, Section 4.

NOW THEREFORE, BE IT RESOLVED, that the Board of Directors of Tahoe Donner Association approves and adopts the following Replacement Reserve Fund Policy:

PURPOSE

The Replacement Reserve Fund is established as a reserve account in accordance with the provisions of Davis-Stirling, the Association's Governing Documents, and sound business practices, to be maintained and administered on an annual basis that provides and accounts for the financial resources required for the repair, restoration, replacement or maintenance of existing major common area components, exclusive of structure replacement.

Major common area components include the Association's Common Area and Facilities, as defined in the Association's Governing Documents, and any property and equipment with a value in excess of \$2,000.

The Replacement Reserve Fund is necessary to keep the Association's amenities and operational infrastructure from deteriorating and becoming functionally obsolete, to keep the community vibrant, to meet current operational demands, to enhance the benefit enjoyed by the ownership, and to protect each Owner's investment in the Association.

The Replacement Reserve Fund (major components) is also used in conjunction with and in addition to the reserves provided by the Development Fund (facility replacement) capital to plan and execute improvement projects that are approved by the Board of Directors.

RESPONSIBILITY & AUTHORITY

It is the goal of the Association to maintain a consistent annual reserve allocation for the Replacement Reserve Fund. The Board shall exercise prudent fiscal management in maintaining the integrity of the Replacement Reserve Fund, and in adopting and maintaining the funding and expenditure plans.

The Board of Directors and the General Manager, to the extent authorized by the Board of Directors, will have the full authority and responsibility to administer the Replacement Reserve Fund in accordance with the terms and provisions contained herein. The Board of Directors has the authority to allow for specific exceptions to the stated parameters or restrictions, except those mandated by statute or those limited by the Governing Documents.

REPLACEMENT RESERVE STUDY

The key element of this Replacement Reserve Fund Policy is the Reserve Study conducted in accordance with the guidelines promulgated by the Department of Real Estate, State of California⁵.

⁵ Reserve Study Guidelines for Homeowners Association Budgets, State of California, Department of Real Estate, August 2010.

The Reserve Study is an analysis of all Association capital asset components and provides the basis for determining the replacement reserve funding requirements over a 30-year period. A comprehensive Reserve Study is performed every three years following a diligent on-site visual inspection of the Association's assets with annual Reserve Study updates in between as additions, deletions, and adjustments occur in facilities and components. The Reserve Study consists of two parts, the Physical Analysis and the Funding Analysis, as described below:

The Physical Analysis is an inventory of all of the common area components that the Association owns, leases, or rents with an estimated remaining life of 30 years or less. Each component is evaluated by location to include quantity, estimated useful life and remaining useful life, estimated year of replacement, current replacement cost and estimated future replacement cost. The number and value of components being tracked, analyzed, and funded will vary over time as facilities and components change.

Changes to the component listing are reviewed once a year, on or before September 1, by the Board of Directors while evaluating Replacement Reserve Fund requirements in advance of the preparation of the Funding Analysis and the annual budget. The Physical Analysis specifically excludes the replacement of entire buildings, which is the purpose of the Development Fund.

The Funding Analysis is an ongoing process that occurs as changes are documented in the Physical Analysis and culminates each year during the annual budget process in order to identify annual replacement reserve funding requirements, disclose limitations, establish assumptions related to management of the Fund, and identify the amount required for the annual allocation to the Replacement Reserve Fund. Assumptions such as interest rates, the rate of inflation, and useful lives incorporated into the budget are recommended by staff and approved by the Board of Directors.

The Replacement Reserve Fund is incorporated into the Association's Capital Funds Projection, which accounts for all capital projects that require funding. The Capital Funds Projection is updated annually in accordance with the annual financial planning and budget procedures.⁶

FUNDING PLAN

Funding for the Replacement Reserve Fund is provided as part of the Association's regular annual assessment. The annual allocation to the Replacement Reserve Fund will be recommended to the Board by the General Manager based on the results of the Physical Analysis and the Funding Analysis contained in the updated Reserve Study as part of each year's annual budget process. The Board will make the final determination regarding the level of funding to be made to the Replacement Reserve Fund in conjunction with funding requirements for the Operating Fund and other capital funds and in the context of the Association's total annual assessment.

⁶ General Resolution 2014-1, Financial Planning, Budgeting, and Reporting, and subsequent revisions, if any.

A minimum balance shall be maintained in the Replacement Reserve Fund that equates to 10% of the Association's Net Property and Equipment (Total Property and Equipment less Land and land improvements), as documented in the prior year's Independent Auditor's Report and accompanying year-end financial statements).

The annual Replacement Reserve Fund assessment allocation shall be increased by a minimum of 4% each year until the Percent Funded level exceeds 25% and until the Replacement Reserve Fund balance is equal to or exceeds 10% of Net Property and Equipment. Once 25% funded or greater is achieved, the current year's funding level also needs to consider reserve study's future years percent funded and cash balances, in order to minimize the need for large adjustments in future years.

Percent Funded is calculated in the Funding Analysis of the Reserve Study and as reported in the Association's Annual Budget Report. The Percent Funded formula is the Forecasted Beginning Replacement Reserve Fund Balance divided by the Fully Funded Value of the Total Current Replacement Costs for all components in the Reserve Study.

EXPENDITURES

Appropriate expenditures from the Replacement Reserve Fund include the repair, replacement, restoration and maintenance of, and additions to, or enhancements of the major components, which the Association is obligated to maintain.

Adoption of the Annual Budget by the Board, which includes the updated Reserve Study's Physical Analysis and Funding Analysis, and Replacement Reserve Fund allocation, along with a consolidated Capital Funds Projection, will constitute approval of funding for the designated capital improvement projects and Replacement Reserve Fund expenditures for the upcoming fiscal year, subject to approval authorization levels for individual expenditures.

Expenditure authorization levels are subject to the Budget Authority levels established by the Board of Directors⁷.

REPORTING

A summary of the results of the Reserve Study and the funding level being allocated to the Replacement Reserve Fund, along with the planned uses of those funds for the coming year, will be reported to Association Members as part of the Association's Annual Budget Report. Furthermore, the accounting of the actual expenditure of funds will be reported to Association Members as part of the Association's year-end Annual Report as required by the Governing Documents⁸.

BORROWING FROM THE REPLACEMENT RESERVE FUND

Borrowing from the Replacement Reserve Fund may be done in accordance with section 1365.5 of the California Civil Code, or applicable successor statute.

⁷ Administrative Resolution 2016-9, Authorization Levels Policy, and subsequent revisions.

⁸ Restated Bylaws of Tahoe Donner Association, Article XII, Section 5(a)(iii).

The Board of Directors may authorize the temporary transfer of money from the Replacement Reserve Fund to the Association’s Operating Fund, Development Fund, and/or New Machinery and Equipment Fund to meet short-term cash flow requirements or other designated expenditures. The Board shall make a written finding, recorded in the Board’s minutes, explaining the reasons that the transfer is needed and describing when and how the money will be repaid to the Replacement Reserve Fund.

The transferred funds shall be restored to the Replacement Reserve Fund within one year of the initial transfer. The one-year period can be extended only if the Board makes a finding, supported by documentation, that a temporary delay in restoring the funds will be in the best interests of the Association. A special assessment, to recover the full amount of the expenditures, shall be levied if necessary to restore the funds, provided applicable member-approval requirements are met.

APPROVAL

Approval of the Replacement Reserve Fund Policy and any changes, amendments, or modifications, thereafter, may only be accomplished at a properly noticed meeting of the Board, after a full reading of the policy in open session, with reasonable time allowed for property owner comment.

ACCEPTED AND DATED: January 26, 2019

_____ JENNIFER JENNINGS, President	<u>VACANT</u> _____ Vice President
---------------------------------------	--

_____ DON KOENES, Secretary	_____ JEFF CONNORS, Treasurer
--------------------------------	----------------------------------

MICHAEL FAJANS, Director

NOTES TO FINANCIAL STATEMENTS

4 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2017	2016
Buildings	\$ 32,025,984	\$ 31,674,341
Fixtures and facility improvements	16,338,817	15,563,456
Equipment	17,817,425	16,861,330
Land and land improvements	② 9,239,805	9,239,805
Furnishings	921,019	888,694
TOTAL	① 76,343,050	74,227,626
Less accumulated depreciation	(35,663,909)	(33,357,975)
	40,679,141	40,869,651
Construction in progress	42,991	136,529
TOTAL	\$ 40,722,132	\$ 41,006,180

5 DEPOSITS

The deposits held by the Association are used to ensure compliance with the Standards Committee.

al property. The Association's Architectural Commission of construction.

6 REPLACEMENT FUNDS

The Association's policy is to fund replacement of equipment and fixtures on the Replacement funding schedules, as they become obsolete. If additional funds are needed, special assessments, or

nts and repairs. Expenses for replacement may be material. Special dues, to levy

**CALCULATION
NET LAND AND EQUIPMENT**

① TOTAL PROPERTY AND EQUIPMENT \$ 76,343,050

② Less LAND AND LAND IMPROVEMENT (9,239,805)

NET PROPERTY AND EQUIPMENT \$ 67,103,245

7 RETIREMENT

The Association maintains a defined contribution plan. Matching contributions expense was \$68,685 and \$74,018 for 2017 and 2016, respectively.

the participant's contributions thereafter. Matching

The Association maintains two defined contribution plans which qualify under Section 457(b) and Section 457(f) of the Internal Revenue Code, respectively (the 457 Plans). The 457 Plans allow for additional Association contributions and salary deferrals subject to limitations for eligible executive employees. Contributions to the 457 Plans funds are considered deferred compensation until certain future date conditions are met. The Association's contribution to the 457 Plans was \$51,548 and \$50,738 for the years ended December 31, 2017 and 2016, respectively.

8 OPERATING LEASE OBLIGATIONS

The Association has non-cancelable operating leases for copiers, land usage and computer equipment. Rental expense under all operating leases was \$116,709 and \$198,034 for 2017 and 2016, respectively. Future minimum lease payments under these leases are as follows:

YEAR ENDING DECEMBER 31:	
2018	\$ 42,880
2019	35,230
2020	18,297
2021	5,752
-----	-----
2022	5,152
Thereafter	1,917
TOTAL	\$ 109,828