

Michael Salmon

From: John Dundas <jd11792@outlook.com>
Sent: Friday, October 11, 2019 10:53 AM
To: Charles Wu; Don Koenes; Jeffrey Connors; Jennifer Jennings; Jim Roth
Cc: Robb Etnyre; Michael Salmon; 'Corey Leibow'; Michael Sullivan, Chair, GPC; Cathy Ravano; Corey Leibow; Dave Hunter; Don Koenes; Edward Melia; Robb Etnyre; Jeff Bonzon; Jeffrey Connors; mahoney902@gmail.com; Marty Anderson; Andrew Eyton-Lloyd; Tom Johns
Subject: Planning for Development Fund
Attachments: Cover note to TDBOD re Capital Funding-final3.docx

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At the October 10, 2019 Finance Committee (“FC”) meeting a robust discussion was held about how best to plan for the funding of major building replacement projects. Important background information for the discussion is contained in the attached Information Paper titled *A Proposal to (1) Strengthen Tahoe Donner Association’s Reserves Available for Future Amenity Expansions/Improvements, and (2) Thoughtfully Fund a Known, Significant Capital Project*. The recommendation contained in that document (please see numbered paragraph 2) is to increase the Annual Assessment by \$300 per homeowner for a four-year period to fund a portion of the planned replacement of the Downhill Ski Lodge **without** sacrificing funding availability for other capital projects. The vote to send this forward to the Tahoe Donner Board of Directors (“TDBOD”) was approved by unanimous vote of the FC Members present. (Please note that at least three other FC members who were unable to attend yesterday’s meeting are supportive of the recommendation.)

Our Association is 48 years old. Although we have a solid handle on funding day to day operations and the routine repair and replacement of components of our fixed building assets, we have not come to grips with funding complete replacement of the facility itself. This is the purpose of the Development Fund. Over the years we have continually given lip service to what is needed in this area without serious action. It is time to act now.

Therefore, the FC is forwarding the attached Information Paper to the TDABOD for your consideration to incorporate a funding stream for this sorely needed financial resource. We encourage you to read the entire proposal, but the core of the recommendation is contained in paragraphs 1-3.

Looking back, there has never been a good time to implement this forward-looking concept. Continually “kicking the can down the road” is not a plan; it is unenlightened obstructionism. This is a measured plan to produce results with diligent savings for future known projects. The proposal is at a modest cost of \$.82 (eighty-two cents per day) for four years to insure that each owner’s property value remains secure, provide added enjoyment to those owners who choose to use our amenities (facilities), brings our facilities up to 21st century standards that will lower costs and improve customer service capabilities, and will allow current and future Tahoe Donner Boards to meet their fiduciary responsibility to establish a plan to protect the Association’s assets. Capital improvements are a responsibility of all of us. The concept of not encumbering future Boards has been and is a smokescreen. It is time to put this practice in the past and plan for the future of all Tahoe Donner homeowner investors in a thoughtful, reasonable, diligent way.

Please note that we are in no way trying to interfere with the deliberate, pragmatic way that the GPC has studied the Downhill Ski Lodge replacement project. The FC’s recent review of the Capital Funds portion of the proposed 2020 budget crystalized our thinking about inadequate funding of future development needs.

John Dundas
Vice Chair, FC

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October 4, 2019

Purpose:

Discuss a Proposal to (1) Strengthen Tahoe Donner Association's Reserves Available for Future Amenity Expansions/Improvements, and (2) Thoughtfully Fund a Known, Significant Capital Project.

Background:

1. After attending the 2020 Tahoe Donner Association ("TDA") Budget Workshops held on September 12 and 20, several members of the TDA Finance Committee (the "FinCom") including Leibow, Dundas, Ravano, Johns, and Mahoney determined that we should consider a customized approach to funding a financially significant improvement to one of TDA's most important amenities. The customized approach is driven by the size of the project, one that will be the single largest project ever undertaken by the TDA.
2. The proposal under consideration is to aggressively accumulate funds now for the planned replacement of the Downhill Ski Lodge (the "DSL") in a dedicated fashion without sacrificing funding availability for other capital projects. Our working assumption is that the recommendation would entail a temporary \$300 per homeowner incremental increase to the TDA Annual Assessment (the "AA") for a 4 year period (total of \$7.767MM accumulated over four years.) (The \$300 per year per homeowner figure might be more properly considered a placeholder for now. Some of the aforementioned members of the FinCom think that a larger figure is more appropriate.) The funds would be dedicated exclusively to replacement of the DSL; after 4 years, the incremental increase would be terminated. Note that there is a 20% limit (roughly \$393 currently) on annual increases to the AA before a special vote of members is required.
3. This focused savings program will allow TDA to maintain a strong reserve position given the expected size of the new DSL while providing funds for other worthy projects that management or the TDA Board might choose to pursue. If a majority of the FinCom agrees, then it is our intention to recommend strongly to TDA's Board of Directors incorporation of this funding program into the 2020 Budget process.

Discussion:

4. The current five year projection for TDA's Development Fund (the "DVF") that was prepared by Mike Salmon, our Director of Finance & Accounting, at the direction of the TDA Board of Directors, includes a "business as usual" approach to incrementally adding funds to the DVF.

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(Please see the attached document labeled “2020 Budget - Development Fund” for further information.)

5. The following section is a summary of the information in the attached document. During the five year budget period 2020-2024 approximately \$11.618MM is expected to be cumulatively contributed to the DVF from the AA. The 2020 Budget calls for investment of approximately \$5.585MM during the same period in a limited number of capital projects (e.g., completion of the Trout Creek Expansion, trail improvements and snow making at the Downhill, Nordic and Snowplay amenities, and modest amounts for open space trail/trailhead improvements, etc.). The excess of planned AA contributions over the 2020-2024 period vs. the expected investment in the same period leads to a planned 2024 DVF ending balance of \$15.563MM. (As a check, please see this same figure repeated in the lower right hand corner of the attached table.) Note that this figure - \$15.563MM - includes approximately \$1.5MM of transfers to the DVF from TDA’s Operating Fund as a result of annual operating surpluses. For planning purposes, current TDA Board guidance is to remove these transfers which would reduce the 2024 DVF ending balance to \$14.063MM. This latter amount will be available, all else being equal, to design, permit and construct a replacement to TDA’s antiquated DSL. Please note that some portion of the funding for the new DSL will come from monies in the Replacement Reserve Fund. A recent estimate provided by Mike Salmon indicates that approximately \$3.8MM of Replacement Reserve Funds will be available for the new DSL in 2023.
6. TDA’s DSL GPC sub-committee has developed a working assumption that the new DSL will call for an investment of approximately \$14.7MM to \$17.15MM depending upon the build size (21,000 sf to 24,500 sf at \$700 per square foot). While the GPC sub-committee hasn’t completed its work, especially as it relates to build size, we expect a significant sum will be invested over the 3-4 year planning, permitting and construction period. The expected amount will be far larger than that for any project ever undertaken by TDA thus the need for a customized funding approach.
7. After careful examination of the 2020 Budget DVF funds accumulation and investment schedule (see previously mentioned attachment) members of the FinCom who attended the Budget meetings have identified the following issues:
 - Depending upon the size of the new DSL and associated cost to build, there may be insufficient funds available to complete the project. Comparing the expected adjusted accumulated DVF balance in 2024 (\$14.06MM) vs the estimated build cost (before consideration of available RRF funds) indicates that at a 21,000 sf. build size we would have a 5% shortfall while at a 24,500 sf. build size (note that this is the GPC’s outside consultant’s recommended size for the new DSL) we would have accumulated only 82%% of required funds. Applying potential RRF funds to the project funding mix improves the situation such that the smaller facility has a 20% cushion and the larger facility has a 4% cushion.

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- Proposed investment in a limited suite of other capital projects (mentioned in #5 above) during the 2020-2024 period will consume all other available DVF funds such that the DVF will be effectively fully depleted by December 2024.
- Based upon the proposed 2020 budget and plan for the DVF and all else being equal, there will be \$0 available during the 2020-2024 period for investment in *other* worthy capital projects identified by TDA's management team, Board of Directors and/or the GPC beyond those mentioned in #5 above. There is a comprehensive list of capital projects currently being vetted within TDA including (i) a back-up power system for the Alder Creek Adventure Center (circa \$500K), (ii) a new storage facility at the Forestry complex to be used by multiple departments to replace the current mix of shipping containers and older buildings (\$500K - \$1MM), (iii) expanded parking at various locations including Trout Creek and the Northwoods Clubhouse (circa \$1MM), and (iv) back-up and/or emergency power at the Lodge (circa \$300K-\$500K). During the 2020-2024 period this list presumably will grow to include other potential projects that aren't as far advanced in the vetting process including expansion/improvements to the (i) Tennis Center, (ii) aquatics complex at Trout Creek (an expanded deck for example), and (iii) expansion of the parking facilities at the Glacier Way Trailhead.

8. Benefits of the proposal include the following:

- Provides transparency and visibility on funding for a major project that while not fully formed/vetted (the GPC needs to complete their process), is one that will require a multi-year funding solution;
- It's manageable; members can comfortably plan for the expenditure. It equates to about \$0.82/day/homeowner for 4 years;
- Avoids a large, one-time special assessment that is difficult to plan for, is generally disliked by members and typically viewed by them as a sign of poor planning by an HOA's Board of Directors and/or management team;
- Permits accumulation of the required funds over the expected 4 year timeline to design, permit and construct the new DSL. We don't need all the funds at one time; and
- As compared to the current funding and investment profile (which consumes virtually all monies contributed to the Development Fund over the next 4 years to build the new DSL), this proposal would allow DVF funds of circa \$5MM to be available to pursue other projects.

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Further Thoughts:

9. The proposal under discussion represents an effective “earmark” of accumulated DVF monies to design, permit and build the new DSL. While beyond the scope of this paper, one issue that deserves further review by the FinCom, management and the TDA Board is the question of developing more rigorous principles about how DVF funds are allocated. Currently, the concept of a dedicated allocation, or “earmark”, is not part of our practice. (Please note that as recently as 2012 -2015 TDA did have a dedicated allocation of the DVF for identified building replacements.) Most of the aforementioned members of the FinCom think that the earmark practice should be restored. Doing so will go a long way toward improving our planning process and serve to diminish the institutional inertia that comes about given the frequency with which the TDA Board turns over.

Prepared By: Steve Mahoney for the TDA Finance Committee

Reviewed By: (1) Members of the TDA Finance Committee including Corey Leibow, John Dundas, and Cathy Ravano, and (2) Mike Salmon (TDA’s DF&A) and Robb Etnyre (TDA’s General Manager)

INFORMATION



2020 Budget - Development Fund

GPC Task Force	Project	2020	2021	2022	2023	2024
Association Wide	New Accessibility Improvements	150,000				
Association Wide	Member Surveys	20,000				
ACAC	Asphalt Parking and Walkways at Equestrian Campus					
ACAC	Snowmaking on select Nordic Trails (Planning 2019) (Ph 1+2 - 2020)(Ph3 2021)(Ph 4 2022)	450,000	275,000	175,000		
Alder Creek Adventure	Master Plan (ECOSign)					
Downhill Ski Resort	Downhill Ski Lodge	350,000	TBD	TBD	TBD	
Downhill Ski Resort	Snowmaking to Eagle Rock	550,000				
Downhill Ski Resort	Regrade Mile Run to 8% minimum slope	300,000				
The Lodge	Covered Stairway, connecting parking lots	150,000				
Trails and Open Space	Implement trail/trailhead projects on the SYIP	150,000	75,000	75,000		
TCRC	Trout Creek Expansion (DF Phases 1 and 2)	275,000				
TCRC	Snowmaking at Snowplay	175,000				
Association Wide	Feasibility Studies	50,000	50,000	50,000	50,000	50,000
Association Wide	Future Land Acquisition (previous unspent \$ rolls forward)	60,000	60,000	60,000	60,000	60,000
Estimated Annual Totals, exclude RRF, Inflation Factor, and direct/allocated overhead		2,680,000	460,000	360,000	110,000	110,000
	Direct and Allocated Overhead	311,000	311,000	311,000	311,000	311,000
	Expenditures Total	2,991,000	771,000	671,000	421,000	421,000
3.0%	Inflation Factor	90,000	46,000	60,000	51,000	63,000
	Total Including Inflation	3,081,000	817,000	731,000	472,000	484,000
2019	< BASELINE YEAR FOR INFLATION FACTOR					
2.0%	Interest Income	143,000	140,000	185,000	235,000	273,000
8.0%	Income Tax Expense	11,000	11,000	15,000	19,000	22,000
	Bad Debt Expense	7,000	7,000	7,000	7,000	7,000
	Member Equity Transfer (Projected)	500,000	500,000	500,000		
20	<Years: Normalized Contributions >	355	375	395	335	335
6473	Annual Contribution	2,298,000	2,427,000	2,557,000	2,168,000	2,168,000
	Beginning	7,167,000	7,009,000	9,241,000	11,730,000	13,635,000
	Ending	7,009,000	9,241,000	11,730,000	13,635,000	15,563,000

< saving for DHSki
bldg replacement

Budget Workshop 9/12/2019