



DECISION PAPER

DATE: October 21, 2020

TITLE: Approval of 2021 Annual Budget

RECOMMENDATION:

By Motion: Adopt Resolution 2020-5 Tahoe Donner Association 2021 Annual Budget.

BACKGROUND:

The Tahoe Donner Association has had to make significant adjustments to the current and 2021 Operating Budget based on the impacts of COVID-19. On Tuesday, March 10, the Town of Truckee declared a state of emergency in response to the global health crisis and pandemic brought on by coronavirus (COVID-19). Tahoe Donner initiated temporary closure of all facilities starting Friday, March 13 and completed closure of winter facilities on Sunday, March 16. Subsequently, Governor Newsom issued Executive Order N0-33-20 Stay at Home mandate closing all non-essential businesses and services. Management and the board of directors worked together to implement cost-saving measures to reduce the financial impact of the enforced shutdown and set up a staged process for reopening facilities in late May and early June. Early actions included staff furloughs and reduced hours, postponement to some capital projects and operating expense cuts.

The early preparations and intense review of activities and program offerings this spring prepared staff and the board for further discussion regarding operating impacts under COVID-19 constraints through 2020 and into 2021 as they entered budget discussions beginning in July with the COVID-19 Home Use and Amenity Use survey to better understand member residence and use during the pandemic. Results of this survey supported with home improvement permit stats, real estate sales, and other information gathered by public agencies tell the story of migration to this region on both a temporary and permanent basis. As working remotely became more prevalent, staff has seen a transition from part-time to full-time residency of second homeowners in Tahoe Donner.

Management anticipates COVID-19 restrictions to limit the use of the recreational facilities through spring of 2021 with softening of the restrictions as treatment and possibly a vaccine begins to come on board. Limited capacities impact usage. One of management's assumption is that as second homeowners become full-time residents, they may see greater value to package fees including the Recreation Fee and other season passes. Similarly, as we witnessed this summer, increased usage of self-directed recreation and COVID-19 pod type programming such as semi-privates and custom experiences will continue. The proposed 2021 budget anticipates these assumptions.

At the August 28, 2020 board of directors meeting, staff presented to the board the 2021 budget process including the timeline, workshop schedule, drivers, assumptions to be used, and membership outreach. The process continued with four budget workshops: three special workshops (September 10, 24 and October 16) and one workshop at a regular board meeting (September 25).



Per Tahoe Donner Bylaws and Resolution 2014-1: Financial Planning, Budgeting and Report, the board will adopt an annual budget and provide the membership with an annual budget report no later than 45 days before the start of the fiscal year along with Annual Assessment billing relating to the adopted budget.

ANALYSIS:

Presented to the board for adoption is the 2021 annual budget, includes the Operating, Replacement Reserve and Development Fund budgets in addition to long-term capital plan assessment appropriation of the Replacement Reserve and Development Funds.

Operating Fund

Operating Fund Overview

As staff developed the 2021 budget, the effects of COVID-19 negatively impacted the assumptions made related projections for the 2021 budget development through the third quarter of 2021. Overall, there is a net decrease to operating revenue of \$1,146,609 as compared to prior year. This includes a minimum decrease in \$1,045,721 revenue at the Downhill Ski Resort, and \$925,355 decrease in food and beverage sales over prior years' budgets.

Due to the uncertainty of COVID-19, a conservative budgeting approach of summer revenue and expense is accounted for in the operating budget. Staff anticipates returning to golf with much excitement for the remodeled course. Most user fees are expected to remain flat apart for a few such as private lessons and golf fees (yet to be discussed/action) along with a modest increase to the Recreation Fee of \$35/10%. For fiscal year 2021, investment income is anticipated to decline by 55% under prior year budget/X% under prior year forecast, representing \$60,000 reduction.

Operating Fund Expense

The 2020 budget reflected total expenditures of \$20,227,000. The proposed 2021 budget reflects expenditures of \$19,634,219. In response to COVID-19 revenue impacts, operations and programming have adjusted and will be adapted to new business models. For example, food and beverage operations will have limited services through the winter with focus on take-out orders. Equestrian operations will stabilize with the COVID-19 operations plan into 2021 and beyond by limiting the TDA-owned herd, offering lessons, clinics, and limited pony rides, boarding, and eliminating group trail rides.

Payroll expense is reduced in affected departments where revenue is impacted by COVID-19 restrictions. However, COVID-19-related mitigation expenses are budgeted including increase to payroll for additional

facility sanitation. Other payroll-related expense is expected to fluctuate with control measures in place to minimize immediate and future increases including workers' compensation insurance, employee benefits, etc. Workers' compensation insurance estimated premium reduced for the fourth year in a row. The 2020-2021 policy year experienced a \$39,796/10% decrease under prior year. With the board's approval, management negotiated additional medical plans, which is estimated to benefit the



employees and the association of 6.9% increase to reduced annual insurance premiums dependent on employee election.

In addition to COVID-19 impacts, the 2021 budget factors in \$1 increase to the minimum wage from \$13 to \$14 affecting all departments. The minimum wage adjustment, effective January 1, 2021, has an estimated \$200,000 minimum impact equating to \$31 out of the \$86 increase to the operating fund portion of the Annual Assessment.

Similarly, property casualty insurance premiums increased \$327,000/48% over prior year because of catastrophic claims at the national level and carrier's capacity to insure. Tahoe Donner's loss history remains low to insignificant. Regardless of the excellent loss history and control measures, the national impacts resulted in large increases to certain policy lines. The \$327,000 increase to property and casualty insurance premium equates to \$50 out of the \$86 increase to the operating fund portion of the Annual Assessment.

It is important to note, between the minimum wage and property casualty insurance premium increases, \$81 of the \$86 operating fund portion of the Annual Assessment result from circumstances out of the association's control.

The board adopted Operating Fund Policy Resolution 2018-4 subsection Operating Fund Contingency Reserves Balance, requiring a minimum of \$750,000 and up to 10% of the current year's gross Operating Revenue budget to ensure the short-term working capital needs. The board is to review the policy annually during the budget process to ensure estimated operating fund balance will be adequate for the needs of the association.

Beginning balance of the Operating Fund Contingency Reserve was \$2,242,454. The anticipated Operating Fund Contingency Reserve balance at the end of December 2020 is \$2,001,722, which is \$580,222 more than the peg balance established by policy. Management recommends discussion of moving excess funds to be postponed until COVID-19 restrictions are released and economic impacts stabilize.

The Operating Fund budget is attached as Exhibit A.



Summary Operating Fund Profit and Loss Chart

	2019 Budget	2019 Actual	2020 Budget	2020 Forecast	2021 Budget	2021 Budget vs. 2020 Budget
Rec Fee Income	\$1,110,000	\$1,180,445	\$1,270,000	\$1,058,007	\$1,400,000	\$130,000
Access Fees	\$4,188,800	\$4,445,118	\$3,942,150	\$2,737,172	\$4,116,034	\$173,884
Food & Beverage	\$4,593,800	\$4,192,381	\$4,208,050	\$2,104,912	\$3,282,695	\$(925,355)
Retail	\$531,500	\$601,026	\$470,100	\$326,468	\$455,076	\$(15,024)
Lessons & Rentals	\$2,976,800	\$3,315,431	\$3,344,800	\$1,906,241	\$3,046,586	\$(298,214)
Other HOA Income	\$814,100	\$961,116	\$904,900	\$944,114	\$693,000	\$(211,900)
Gross Income	\$14,215,000	\$14,695,517	\$14,140,000	\$9,076,914	\$12,993,391	\$(1,146,609)
COGS	\$(1,613,000)	\$(1,554,428)	\$(1,476,000)	\$(845,406)	\$(1,260,142)	\$(215,857)
Gross Margin	\$12,602,000	\$13,141,089	\$12,664,000	\$8,231,508	\$11,733,248	\$(903,752)
Payroll	\$(13,050,000)	\$(12,729,963)	\$(12,905,000)	\$(10,066,778)	\$(12,509,027)	\$(395,973)
Operating Expenses	\$(5,445,000)	\$(5,479,525)	\$(5,846,000)	\$(4,374,256)	\$(5,865,050)	\$19,049
Net Operating Revenue	\$(5,893,000)	\$(5,068,399)	\$(6,087,000)	\$(6,209,526)	\$(6,640,828)	\$(553,828)
Overhead Charged to Other Funds	\$197,000	\$172,514	\$197,000	\$197,000	\$197,000	\$0
Net Operating Revenue after Overhead Allocation	\$(5,696,000)	\$(4,895,885)	\$(5,890,000)	\$(6,012,526)	\$(6,443,828)	\$(553,828)

Capital Funds

Replacement Reserve Fund

As required by the Davis-Stirling Act governing common interest developments in California and Tahoe Donner Replacement Reserve Fund Policy Resolution 2019-1, Tahoe Donner is required to have a 30-year replacement reserve plan to address the funding and plan to address the major components of the association. The association is required to perform a 3-Year Reserve Study, which is the physical and financial audit/analysis of the association's replacement reserve plan. The study establishes a 30-year cash flow analysis from which association can plan and use for funding purposes annually. Tahoe Donner completed the 3-Year Reserve Study in 2019 and annually completes review of upcoming components and project budgets.

On the 30-Year Cash Flow Report, an annual inflation rate of 2% is factored (Renuka Diwan, 2020), which is consistent with the other capital funds along with a 2% interest rate on funds. The Tahoe Donner Replacement Reserve Fund Policy Resolution 2019-1 states,

...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.



Therefore, included in the proposed 2021 budget is \$801 to the Replacement Reserve Fund (RRF) portion of the Annual Assessment, a \$31/4% increase over the prior year.

The 2021 Replacement Reserve Fund Budget (Exhibit B), 30-year Expenditure (Exhibit C) and 30-Year Cash Flow (Exhibit D) is attached.

New Machinery and Equipment Fund

The New Machinery and Equipment Fund (NMEF) was established to fund as a reserve account to acquire new association assets identified to improve operational efficiencies, new equipment to support or enhance services, programs and activities of the membership. Examples of purchases include new software, additional treadmills, additional SUPs or additional computer hardware. Total beginning balance of the NMEF for 2020 was \$207,674, ending forecast balance is \$314,776. During the October 16, 2020 board workshop, board consensus was to not assess for NMEF contribution for the 2021 budget.

Development Fund

As we consider the Development Fund assessment appropriation and long-term savings, it is important to note the association is coming up on its 50th anniversary next year. The Downhill Ski Resort lodge, Northwoods Clubhouse and Tennis Center all opened at the inception of the association in 1971, aging over these 50 years and each nearing the end of their long and useful lives.

These facilities will need to be addressed along with other potential Capital Projects in the future. Thus, much discussion has and will continue to be had as to what the best approach for funding these projects over time may be.

Over the next several months, staff will present a longer-range Capital Plan that will address these and other aging buildings and infrastructure once the Strategic Plan is adopted. As we know significant spending will be inevitable soon, incremental savings now will help avoid a drastic increase once the time comes to reinvest in these 50-year old buildings.

Included in the proposed 2021 budget is the development fund capital improvement plan. The five-year capital improvement program totals \$23,430,660 in estimated project costs. To achieve the necessary capital to address planned projects in the five-year horizon and beyond, the proposed Development Fund appropriation portion of the Annual Assessment is \$444, an \$89/25% increase over prior year. The Downhill Ski lodge is scheduled in the five-year capital improvement program as a planned project with estimated project costs; however, the final size and cost are yet to be determined by the board of directors. Each project contained in the plan is subject to further review and approval by the board of directors.

The Development Fund five-year capital improvement plan is attached as Exhibit E.



Summary Capital Funds Balance Chart

	Reserve Fund				
	2016	2017	2018	2019	2020 Forecast
Beg Balance	6,859,483	7,903,233	10,238,311	10,400,649	12,827,511
Assessment	3,534,000	3,852,000	4,013,000	4,661,000	4,985,000
Interest Income	56,222	137,726	211,998	219,493	186,000
Expenditures	(2,568,248)	(3,174,577)	(4,619,576)	(3,409,911)	(2,306,522)
Q4 Estimated Expenditures					(3,691,989)
OH Allocation				(77,000)	
Other Income/(Expense)	21,777	19,828	56,916	33,280	
Fund Transfer		1,500,000	500,000	1,000,000	
Ending Balance	\$ 7,903,233	\$ 10,238,311	\$ 10,400,649	\$ 12,827,511	\$ 12,000,000
	Development Fund				
	2016	2017	2018	2019	2020 Forecast
Beg Balance	192,497	499,052	3,753,014	5,304,788	6,787,250
Assessment	1,618,000	1,942,000	2,007,000	2,168,000	2,298,000
Interest Income	3,844	26,848	91,945	160,459	78,083
Expenditures	(1,307,873)	(509,915)	(533,231)	(731,889)	(881,000)
OH Allocation				(95,514)	
Other Income/(Expense)	(7,416)	(4,972)	(13,940)	(18,594)	(8,666)
Fund Transfer		1,800,000			
Ending Balance	\$ 499,052	\$ 3,753,014	\$ 5,304,788	\$ 6,787,250	\$ 8,273,667
	New Machinery & Equipment Fund				
	2016	2017	2018	2019	2020 Forecast
Beg Balance	66,533	75,788	100,423	113,021	207,674
Assessment	194,000	194,000	194,000	194,000	194,000
Expenditures	(184,756)	(170,213)	(184,406)	(105,557)	(89,441)
Interest Income	11	848	3,004	6,813	2,543
Other Income/(Expense)				(604)	
Fund Transfer					
Ending Balance	\$ 75,788	\$ 100,423	\$ 113,021	\$ 207,674	\$ 314,776
NOTE: YE forecast balances drafted 10/20/20					

OUTREACH:

New in 2020, staff set a goal to better inform the members of the 2020 budget process, key drivers and assumption as well as how to provide feedback prior to action or adoption. Themes of the outreach include transparency, understandable and easy to find information, timely and consistent communication as well as easy ways to provide feedback.

SPECIFIC OUTREACH INITIATIVES INCLUDED:

- **Open Budget Workshops:** 9/10, 9/24, 10/16
- **Four Dedicated Member Emails:** Sent 2-3 days prior to each meeting with the objectives of each meeting, ways to participate and links to supporting documents
 - **Total of 23,406 emails opened by members**
 - **Total of 1,083 total clicks for more information**
- **Weekly Tuesday Emails:** 10 consecutive weeks of info in weekly email



- **2021 Budget Webpage:** Created one-stop webpage for all budget information, meeting recordings and presentations with 648 page views
- **Budget Feedback Form:** Created and integrated into the 2021 Budget webpage
- **2021 Budget Story:** Published in October *TD News*
- **Message from the GM:** 10/7 email and in October *TD News*
- **Twitter:** Posted budget workshop reminders
- **Budget Timeline Graphic:** Featured in September *TD News* with meeting dates

Besides the published budget timeline in *TD News*, every single communication method listed above was new in 2020.

FISCAL IMPACT:

The approval of the proposed resolution established the 2021 budget authority and 2021 Annual Assessment.

ALTERNATIVE:

The 2020 budget expires December 30, 2020. Additionally, the board is required to provide and notify the membership no later than 45 days of new budget of the budget and Annual Assessment. If the board chooses not to adopt the budget at this time, staff may schedule a special meeting and bring back additional information providing another opportunity for adoption.

ATTACHMENTS:

- 2020-5 2021 Budget Resolution
- Exhibit A: 2021 Operating Fund Budget
- Exhibit B: 2021 Replacement Reserve Fund Budget
- Exhibit C: 30-Year Replacement Reserve Fund Expenditure Report
- Exhibit D: 30-Year Replacement Reserve Fund Cash Flow Report
- Exhibit E: Development Fund Capital Improvement Plan
- FRBSF Economic Letter (Renuka Diwan, et al. 2020)

Prepared By: Annie Rosenfeld, Director of Risk Management and Real Property

Reviewed By: Tom O’Neil, Controller, Lindsay Hogan, Director of Marketing and Miguel Sloane,
Director of Operations

Board Meeting Date: October 23, 2020

General Manager Approval to Place on the Agenda: _____