



## FINANCE COMMITTEE MEETING FINAL REPORT

**November 12, 2020**

**Mezzanine Room | Northwoods Clubhouse**

### **ATTENDANCE Via Zoom Video Conference Call**

Members: Dundas, Ravano, Bonzon, Watson, Melia, Colbert

Absent: Eyton-Lloyd

Ex-officio Members: Mickaelian (GM), O'Neil (Comptroller),

Board Liaisons: Mahoney (Treasurer)

GPC Liaison: Lindgren

TDA Members: Yoo, Vietor, Gauny, Payne,

TDA Staff: Bennett

### **AGENDA ITEMS**

1. **Call to Order / Call for Quorum:** Meeting called to order by Dundas, Chair, at 3:04 p.m. 6 Member quorum present.
2. **Approval of Agenda:** Motion to approve Agenda, Bonzon 1st, Ravano 2nd; passed 6-0.
3. **Approval of Committee Report, October 8, 2020:** Motion to approve Report, Bonzon 1st, Colbert 2nd; passed 6-0.
4. **Member and Committee Member Comments:** Colbert thanked O'Neil for resuming the monthly posting of financial results to the TD website. Dundas commented on the focus group meeting held earlier in the day for members of the Finance Committee to provide feedback on the Downhill Ski Lodge project and encouraged applicants to try and attend one and to contact Mitchell if they were interested.
5. **Committee Tasks:**
  - a: **Investment Working Group:**
    1. Watson gave a brief overview of how our reserves are invested, with the current investments being predominantly very short-term given the low interest rates all along the yield curve.
    2. Watson provided a summary of the proposed changes to the Investment Policy, highlighting the addition of more investment choices with the inclusion of commercial paper and GSE obligations, the extension of corporate bond tenors, the lowering of the

minimum corporate bond ratings by one notch, and more flexibility to the consultation process in the event that an investment might need to be sold prior to its maturity. Lindgren questioned the need for longer maturities and Watson and Mahoney explained why the longer maturities might be helpful to the Development Fund and the Replacement Reserve Fund going forward. Colbert asked about the riskiness of commercial paper and Watson explained the protections provided by strong ratings, very short maturities and the requirement for issuers to have back-up credit facilities they can draw down in the event that paper cannot be sold in the market, enabling the commercial paper to be repaid. Mahoney commented on the need to review our use of external advisory and management services once the new DFA has been hired. Depending on the skills and experience of the new DFA, it may make sense to either increase or reduce the externally managed funds.

The committee discussed the best way to progress this. Subject to confirmation with Mickaelian and O'Neil, Mahoney proposed that the revised policy be voted on at the next FC meeting and then forwarded to the board for action at the December meeting. Mickaelian would also decide whether he would like the accompanying Decision Paper to come from management or from the FC.

3. Mahoney reported that one corporate bond in our investment portfolio had recently been downgraded by two rating agencies and had become out of compliance with our existing Investment Policy. The bond issuer is Intercontinental Exchange and we hold one 4% coupon bond maturing in October 2023. Our cost basis for the bond is \$77,903 and the most recent market price was \$82,425, giving a yield to maturity of 3.6%. The reason for the downgrade was the announcement of an acquisition to be made by Intercontinental Exchange to be funded largely with debt, causing their leverage to become higher than the guidelines for their previous rating allowed, as opposed to a rating downgrade triggered by a deterioration of their business. Mahoney pointed out that the bond would not be out of compliance with the proposed Investment Policy.

The question posed by Mahoney was whether the FC thought we should sell the bond or continue to hold it and ask the board for approval of a policy exception. In response to a question by Payne as to what the process for policy exceptions is, Mahoney said there is no clearly defined process for such exceptions. Bonzon expressed the view that the issue should be resolved expeditiously and the policy exception should either be approved by the board at the November meeting or the bond should be sold. Bonzon also thought the FC should vote on whether to hold or sell which would inform the board's decision. Bonzon made a motion to vote on whether to hold the bond, requiring a policy exception, or to sell the bond. The FC voted 5-1 to continue to hold the bond.

The FC asked Mahoney to raise the issue to the Board President to ascertain whether he was receptive to the idea of the board approving exceptions to policy. If so, Mahoney would table the issue for inclusion in the November board agenda. If not, the external manager would be instructed to sell the bond.

**b. Downhill Ski Lodge Update:**

Colbert reported that the last meeting of the task force was a focus group conducted by PROS Consulting and that a Request for Qualification (“RFQ”) has been sent out to a number of firms for the design phase of the project. Mickaelian added that the timeframe for receiving RFQs back was November 20. In response to a question from Colbert, Mitchell confirmed that PROS Consulting would report out on the findings from the various focus groups and the member survey.

**6. New Business:**

**a. 2020 Financial Forecast:**

O’Neil reported that, despite a forecasted loss of \$500-600k for December, management’s expectation is that the full year’s Net Operating Revenue will end up \$207k above budget, which would be added to the Operating Fund Contingency Reserve. Mickaelian advised caution with regard to the forecast given the growing uncertainties stemming from the new wave of Covid-19 infections and also given current uncertainties over the weather predictions and possible lack of snow. O’Neil also provided an update on the current Due To/From balances between the various operating and capital funds. Watson asked about the outlook for finding enough seasonal help in the absence of J-1 visas. Mickaelian responded that TD’s demand for seasonal labor was much reduced since we will not be offering group lessons at the downhill ski mountain and that he was hopeful we will find enough people locally willing to work. Mickaelian also said the first 2021 annual assessment check had just been received.

**b. Annual Budget Report:**

Mahoney said that it had been a big effort to write the budget report without a DFA in place and that the management team had performed extremely well. The final report had been sent to the printer on Tuesday and should arrive in members’ mailboxes next week. The budget assumes that the current covid-related restrictions will remain in place until June 1.

**c. GPC Liaison Report:**

Lindgren said that the last GPC meeting has been a downhill ski focus group with PROS Consulting.

**d. 5501 Committee Report:**

Dundas referred members to the report he had circulated with the agenda. Mahoney said that a question had come up at the committee meeting about the split between fixed and variable expense, that 60% of our total expenses are payroll and related expenses and that 2020 had been a good demonstration of how much we could reduce variable expenses by. Mahoney also expressed his hope that we could do a better job of explaining this to homeowners.

The upcoming 5501 meetings and attendees are:

November 24 : Colbert, Watson and Vietor

December 22: Dundas, Watson, Ravano, Gauny, Colbert, Vietor and Yoo.

**7. Committee Management:**

**a. DFA Update:**

Mickaelian said that candidate interviews were underway and that he hoped to fill the position by year end. Ravano expressed her preference for a CPA and Mickaelian said that a CPA qualification was in the job description as a preferred rather than as a required qualification. Dundas asked about the "Business Support" part of the new role definition to which Mickaelian responded that he wanted someone who could contribute positively to the F&B management and efficiency. Ravano asked about preparations for the next external audit to which Mickaelian responded that O'Neil was the point person for the time being and that the preliminary information review is scheduled for December 7. Mahoney expressed his personal view that he would be supportive of finding another interim DFA if we can't find the right candidate quickly. Mickaelian agreed but said that O'Neil had been incredibly helpful in holding things together despite his short tenure at TDA.

**b. Committee Vacancies:**

Mickaelian advised the Committee that he is planning to recommend to the board in December that no committee vacancies are filled until after the Strategic Plan has been developed and approved by the board, which he hopes will happen in the spring. The reason for the delay in filling vacancies is that one part of the Strategic Plan will address governance. In response to a question, Mickaelian said that his recommendation would be that committee members with terms expiring at the end of this year would remain in place until such time as the new strategic plan is complete, the committee roles and tasks are agreed, the length of committee terms is decided and the skill sets for committee members is better defined. Both the committee members and the applicants for vacant seats expressed their support of this approach.

**8. Next FC Meeting:** December 10, 2020, 3:00 - 4:30 p.m., via Zoom.

**9. Preliminary Agenda Topics for Next Meeting:**

2020 Financial Forecast Update; Investment Policy; GPC Liaison Report; 5501 Committee Report.

**10. Adjournment:** Dundas called for a motion to adjourn; Melia 1st, Ravano 2nd: passed 6-0. The meeting was adjourned at 4:30 pm.

Prepared and Submitted by Terry Watson, Vice Chair, Finance Committee