

Tahoe Donner Association – Quarterly Treasurer’s Report – April 2022

Introduction

This report is a brief update on the status of the Tahoe Donner Association (“TDA”, or the “Association”) operating performance and investment portfolio for the period ended December 31, 2021. The Quarterly Treasurer’s Report is called for by the TDA governing documents.

Summary

Many operational challenges were faced in 2021 as our members, the local community and broader region endured year two of the COVID-19 pandemic. Added costs associated with hiring and retaining a talented workforce amidst a nation-wide staffing shortage impacted amenity and service offerings. Wildfires throughout the Tahoe area and beyond delayed capital project construction and reduced amenity access. The continuation of COVID-19 impacts reduced capacities and availabilities at amenities. I applaud both staff resilience and member patience as we navigated these waters while striving to safely offer quality services and amenities at a reasonable price.

Your Association stands in a strong financial position today. For fiscal year 2021, we reported an Operating Fund Net Operating Result surplus of \$850,213 versus the budget. This superior performance is a result of our management team carefully balancing revenues and the cost to produce that revenue. This budget surplus amount represents, in effect, a contingency reserve.

By California law, Tahoe Donner Association is required to budget for a break-even result in our Operating Fund. When we do have an Operating Fund surplus, it is typically due to strong seasonal performance in our winter or summer operations from favorable weather. Later this year, we will reassess this contingency reserve, and, conditions permitting, transfer all or a portion of the 2021 Operating Fund surplus to our capital improvement funds much as we have done in the past.

Another measure of the strength of your Association is that our capital funds, principally comprised of the Replacement Reserve Fund and the Development Fund, stand at the highest funding levels in the Association’s history. Monies in these capital funds are used to maintain, improve and develop our physical plant to preserve and enhance the overall experience for our members and their guests, and to strengthen our home values.

The Association’s official annual report will be mailed to members in late April. It contains a wealth of information about the Association’s operating performance and financial condition. I encourage everyone to carefully review this material to become better familiar with your Association’s finances.

Investment Portfolio

As of December 31, 2021, Tahoe Donner Association had approximately \$35 million of cash, cash equivalents, and invested funds available to support our operations and the repair, refurbishment, and eventual replacement of our physical plant. Fund balances will decline through calendar 2022 as we support operating activities and invest in key renovation and repair work during the summer/autumn construction season. Examples of this effort to keep our physical plant in great condition include completion of snowmaking at Snow Play and the Nordic Center, planning and design work on the replacement for the Downhill Ski Lodge, deck expansion and improvements at the Beach Club Marina and at the Lodge outdoor pavilion area. Keeping the Association’s assets in excellent condition reduces our long-term operating costs, improves member enjoyment, and contributes to stronger property values.

The TDA portfolio is invested in a suite of high-quality, conservative instruments in accordance with the Association’s Investment Policy. The asset mix includes US treasury securities, corporate and municipal bonds, and cash on deposit at banks and money market instruments. Every bond in our investment portfolio has at

Tahoe Donner Association – Quarterly Treasurer’s Report – April 2022

least one rating of A- from a nationally recognized credit rating firm. At December 31, 2021, the distribution of invested assets by type was as follows: US Treasury securities: 4.19%; corporate bonds: 7.80%; municipal bonds: 8.25%; cash on deposit and money market funds: 79.76%.

We do not take unnecessary risk in our investment portfolio to achieve better returns. For example, we do not invest in equities, commodities, or exotic securities like Bitcoin. We are a “fixed income investor”, and like fixed income investors everywhere, we did our best in 2021 to cope with a period of persistently low interest rates. We deliberately positioned the portfolio for an expected increase in interest rates as (i) economic activity increased in the latter stages of the pandemic, and (ii) the Federal Reserve System became less accommodative in the execution of monetary policy.

As expected, interest rates have increased sharply over the last several months and are expected to increase further as the Federal Reserve pushes its benchmark interest rate higher. Over the past month, we have transitioned approximately \$17 million from cash equivalents and money market instruments into two and six month US Treasury Bills earning substantially higher returns. We are well-positioned to extend maturities further and increase our investment returns as interest rates turn higher later in the year. Over the next few months, we will work with our investment advisors to better refine our investment strategy considering then current market conditions.

Outlook

Through the first three months of 2022, your Association generated a Net Operating Result surplus in the Operating Fund of approximately \$182,778. This favorable result is a combination of strong winter amenity visitation partially offset by higher payroll costs due to overtime prompted by labor shortages. As we transition into summer operations, we are expecting substantially fewer operational impacts from the COVID-19 virus although labor cost and availability remains a critical issue throughout the Tahoe Basin. The management team is gearing up for what is hoped to be a "near as normal" summer of fun in Tahoe Donner.

Over the next few months, with the Board’s support, I would like the Association staff, the Finance Committee, and/or the Long Range Planning Committee, as appropriate, to advance the following initiatives:

1. Evaluate opportunities to lengthen the Association’s investment portfolio’s weighted average maturity (assuming market conditions permit) to improve investment returns; and
2. Refine the long-term Development Fund investment forecast to identify critical funding events to inform decisions about the Annual Assessment and help guide appropriate investment of Development Fund assets.

Respectfully,

Stephen M. Mahoney
Board Member & Treasurer, Tahoe Donner Association
April 15, 2022