



STAFF REPORT

DATE: October 21, 2022

TITLE: Approval of 2023 Annual Budget

RECOMMENDATION:

By Motion: Adopt Tahoe Donner Association 2023 Annual Budget.

BACKGROUND:

The Tahoe Donner Association has endured considerable operating expense increases during 2022, which will continue into 2023. Staff has diligently reviewed the operating revenues and expenses by amenity and reviewed and planned for the investment in Tahoe Donner capital assets for fiscal year 2023. As with the Association's homeowners, staff too have seen the impacts of high inflation, the increase in utility costs such as gas/diesel and natural gas used for heating purposes. Insurance coverage has also increased again considerably for 2023; insurance in total accounts for \$300 per property of the Annual Assessment.

In addition, the significant increase in labor costs to first attract and then retain valued employees in a very competitive labor market has seen overall labor cost increase by 10%; this increase involves significant dollars, considering labor cost is the Association's largest expense.

With the anticipated construction of the Downhill Ski Lodge commencing in May 2023, the Association will see reduced operating services at the Downhill Ski Resort in December of 2023, adding further pressure to the assessment. Staff anticipates a negative impact of \$120,000 of NOR for the month of December 2023 at the Downhill Ski Resort due vastly reduced operations in F+B, Rentals and Retail and overall visitation.

ANALYSIS:

Presented to the Board for adoption is the 2023 annual budget, including 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 Revenue

As the Board will determine the Operating Fund assessment contribution at the Oct. 28, 2022 Regular Board Meeting, staff anticipate operating revenues to be between approximately \$17.2M and \$17.6M for 2023, representing an increase between 7% and 9% over the 2022 forecast. Staff is anticipating increased revenues at all public amenities excluding Day Camps, Downhill F+B, Retail and Rentals. Each of these amenities will be impacted by the anticipated Downhill Ski Lodge construction. Staff is also projecting increased revenues at private amenities compared to what is forecast for full year 2022.



Operating Fund Expense

The 2022 forecast anticipates total expenditures of \$22.6M. The proposed 2023 budget reflects expenditures of \$24.9M, representing a 10% increase.

Payroll expense represents the Association's largest expense annually. Over the past several years, Tahoe Donner has seen \$1.00-per-hour annual increases in minimum wages. Going into 2023, the mandated increase is less at \$0.50-per-hour. However, with the extremely competitive job market in Truckee and throughout the Tahoe region, Tahoe Donner is having to offer higher wages simply to attract front-line staff, many of whom would be at or near minimum wage. Offering higher wages to front-line staff creates compaction across the Association in general for seasonal staff.

In addition to direct wages, the Association has seen a 6.5% increase in medical premiums along with a 28% increase in workers compensation coverage and an 11% increase in property casualty insurance for 2023.

Increased utility costs have also been a considerable contributor to overall expense increases. Tahoe Donner too is subjected to record high gas/diesel prices, with the cost of natural gas propane doubling in the past 12 months.

Recreation Fee Options

Currently the Recreation Fee allows for up to 4 people at \$395 and for additional members 5-8 a further \$145 per member. The Board of Directors requested staff look at options to provide further value to the members. As presented in the Annual Budget document dated Oct. 28, 2022, staff have put forth several options for the Board to consider.

Capital Funds

Replacement Reserve Fund

As required by the Davis-Stirling Act 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 replacement plan of 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 Tahoe Donner can plan and use for funding purposes annually. Tahoe Donner completed the 3-Year Reserve Study in 2022 and annually completes a review of upcoming components and project budgets.

On the 30-Year Cash Flow Report, an annual inflation rate of 3.5% is factored, which is consistent with the other capital funds along with a 1% 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 2023 budget is **\$882** to the Replacement Reserve Fund (RRF) portion of the Annual Assessment, a \$34 or 4% increase over the prior year.

New Machinery + Equipment Fund

The New Machinery + Equipment Fund (NMEF) was established as a reserve account to acquire new Association assets; these assets were identified to improve operational efficiencies or enhance services, programs or activities for the membership. Examples of purchases include new software, additional treadmills, updated boat rentals or new computer hardware. The forecast ending balance of the NMEF 2022 is \$291,000. With the anticipated investment from the fund in 2023 of \$121,000, Board consensus was to not assess for NMEF contribution for the 2023 budget.

Development Fund

Staff provided the 5-Year Capital Funds Projection specific to the Development Fund (DF). As projected in budget 2022, a 25% increase per property contribution to the DF was anticipated for 2023, which is proposed by staff. This sees a \$139 increase over 2022 to a total contribution of **\$694** per property. Staff is projecting investment and expenses, including inflation from the DF in 2023, of \$13M with the Downhill Ski Lodge representing \$11.2M (excluding inflation) of the total investment.

The 5-Year Capital Funds Projection anticipates almost \$40M in investment over the next five years. To achieve the necessary funds to address planned projects, a 25% increase to the fund was required in 2023 with a further 25% increase in 2024 to \$867 and flat hold for years 2025-2027. This would see the Association with a fund balance at the end of 2027 of approximately \$1.4M. This is a 5-Year Projection at this time and will most likely require changes, as projects and costs associated are further refined based on economic impacts.

Operating Fund Surplus 2021

Tahoe Donner recorded an Operating Fund Surplus to Budget in 2021 of \$850,000. Per Resolution 2018-4 when surpluses occur the balance in excess of the minimum Operating Fund Contingency Reserve may be transferred to the Capital Funds at the discretion of the Board of Directors. The resolution does allow for the Board of Directors to allow for exceptions to the stated parameters or restrictions, except those mandated by statute or those limited by the Governing Documents.



OUTREACH:

Specific Outreach Initiatives Included:

- **Open Budget Workshops:** Sept. 8, Sept. 22 and Oct. 14, 2022
- **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
- **Weekly Tuesday Emails:** Included meetings from August 24, 2022 onwards
- **2023 Budget Webpage:** Created and integrated into web navigation
- **Budget Feedback Form:** Created and integrated into 2023 budget webpage
- **2023 Budget Story and Timeline:** Published in August, September and October *TD News*

FISCAL IMPACT:

The approval of the proposed resolution establishes the 2023 budget authority and 2023 Annual Assessment.

ALTERNATIVE:

The 2022 budget expires December 31, 2022. Additionally, the Board is required to provide and notify the membership in no later than 45 days of the new 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.

Prepared By: Todd Martyn-Jones, Director of Finance, Accounting and Business Support

Reviewed By: Miguel Sloane, Director of Operations

Board Meeting Date: October 28, 2022

General Manager Approval to Place on the Agenda: _____