



## **AD HOC COMMITTEE REPORT**

**Date:** March 20, 2023

**Title:** Guidelines to Address User Fees versus Assessment for the Operations Portion of the Annual Assessment

### **PURPOSE:**

With this report the Ad Hoc Committee provides an update to the Board on its progress, requests comments on the work completed thus far, and invites the Board to discuss options for bringing this project to a successful conclusion.

As an attachment, the report includes a draft Operating Fund Policy update capturing the Ad Hoc Committee's discussions and conclusions. At this time, the Ad Hoc Committee neither recommends nor proposes the draft policy. It is provided for the sake of raising issues, inviting comment, and fostering discussion.

### **BACKGROUND:**

During the 2023 Budget Workshops, the Board of Directors discussed how, over the last decade and a half, the Association has increased its reliance on user fees to fund its Operating Fund budget. From 2009 to 2014, the average ratio was approximately 65% user fees, 35% annual assessment. From 2018 to 2022, the average ratio was approximately 70% user fees, 30% annual assessment. One 2023 budget option proposed for consideration at the Budget Workshops would have set the ratio at 73% user fees, 27% annual assessment. Ultimately, the board adopted an Operating Fund budget with a ratio of 71% user fees, 29% annual assessment.

At the workshops, the board discussed how this increased reliance on user fees increased the Association's exposure to financial risk from weather and other sources. It also considered whether the increased reliance on user fees is consistent with the values and principles contained in the Governing Documents.

While discussing the 2023 Workplan, the board discussed "pursuing the exploration of a guiding document to provide parameters on the amount of the budget funded by user fees versus the annual assessment." To address this task, staff recommended "forming an ad hoc committee with up to two Board members [that,] along with staff will develop a draft policy [to be provided] to the Board in Q2 for feedback and possible adoption."

To address these concerns and to begin work on this task, at the December 15, 2022 Board of Directors meeting, "Director Koenes made a motion to direct Director Mahoney and Director Levine to the Ad Hoc Committee of the Board of Directors to develop guidelines to address user



fees versus assessment for the operations portion of the Annual Assessment by March 2023 for consideration of the full Board.” The motion was seconded by Director Mahoney and approved 5 – 0 by the board.

### **AD HOC COMMITTEE MEETING TIMELINE:**

**First Meeting, 2/6/23,** Directors Mahoney and Levine, David Mickaelian, Todd Martyn-Jones, and Steve Hogan.

The Ad Hoc Committee discussed the overall goal of its assigned project, and considered whether guidance to address the ratio of user fees versus annual assessment should take the form of a fixed target ratio. Concluding that a fixed target ratio could be too inflexible, the Ad Hoc Committee opted for a principle based approach and began to assemble a non-exhaustive list of potential principles and ideas for improved budget guidance. Following the meeting, Directors Mahoney and Levine continued to refine the list of principles and ideas via email.

**Second Meeting, 3/2/23,** Directors Mahoney and Levine, David Mickaelian, and Todd Martyn-Jones.

Because the AdHoc Committee opted for a principles based approach, the committee concluded that an update to the Fund Principles in the Operating Fund Policy is the proper vehicle by which to address the user fees versus annual assessment ratio.

The current Operating Fund Policy (2018-4) was originally written in 2013. Though it includes a section titled Fund Principles, the policy actually includes few clear, effective, and actionable principles to guide development of the Operating Fund budget. Since it was written, the policy has been updated only once in 2018 to increase the Operating Fund Contingency Reserve’s minimum balance.

After the meeting, Directors Mahoney and Levine worked via email to begin writing a draft Operating Fund Policy update based on the Committee’s discussions and the previously developed list of potential principles and ideas.

**Third Meeting, 3/13/23,** Directors Mahoney and Levine.

The Ad Hoc Committee discussed and further developed the policy draft. The principles based approach raised numerous direct and indirect connections with other Operating Fund Policy considerations, all of which would ideally be addressed holistically in an updated Operating Fund Policy. Additionally, the committee identified additional issues in the existing Operating Fund Policy that may warrant updates for technical or prudential reasons. These include:

- Funding levels for the Operating Fund Contingency Fund (OFCR)



- The annual process to update OFCR funding levels
- The Board's ability to borrow from the Development Fund to meet Operating Fund budget shortfalls in excess of the OFCR

These additional issues are not addressed in the attached draft policy.

**Fourth Meeting**, 3/15/23, Directors Mahoney and Levine, David Mickaelian and Todd Martyn-Jones.

The Ad Hoc Committee discussed the relationship between the Operating Fund Policy and the Amenity Access Policy. Currently, staff is developing options for a potential update to the Amenity Access Policy, all of which may directly affect the ratio of user fees versus assessment support for the Operating Fund budget.

The Ad Hoc Committee also discussed the idea of Operating budget core costs. Though potentially helpful for defining guidance on the appropriate ratio between user fees and the annual assessment, the committee concluded that Operating budget core costs are not currently sufficiently well-defined to provide a basis for guidance.

Finally, in light of all of its discussions, the Ad Hoc Committee considered whether the Operating Fund budget's reliance on user fees should ever exceed 70%. The Ad Hoc Committee concluded that such reliance should not normally exceed 70%, and agreed that this is appropriate provisional guidance regarding the ratio of user fees versus annual assessment support for the Operating Fund budget.

## **CONCLUSION:**

In summary, the Ad Hoc Committee concluded that:

1. Rather than set a fixed target ratio to define the Operating Fund budget's reliance on user fees versus the annual assessment, this issue should be addressed holistically by an updated Operating Fund Policy with well-defined principles according to which Operating Fund budgets should be developed.
2. The Operating Fund Policy is due for a general update for technical and prudential reasons.
3. If more concrete guidance is desired (e.g. guidance to define an optimal ratio range for the Operating Fund's reliance on user fees versus the annual assessment), it may be necessary to define realistic and reasonable cost recovery targets for each facility and facility access fee schedule. This task is not part of the Association's 2023 Workplan, and may require significant time and resources to complete.
4. Even absent defined cost recovery targets, it is reasonable provisional guidance to state that Operating Fund budget reliance on user fees should not normally exceed 70%.



5. The Amenity Access Policy update project could have significant implications for the Operating Fund budget's reliance on user fees versus the annual assessment. As such, it may not be possible to finalize clear, effective, and actionable guidance on this ratio until the Amenity Access Policy update project is nearer completion.

As an attachment to this report, the Ad Hoc Committee has provided the Board of Directors with a draft Operating Fund Policy update capturing its discussions and conclusions. A document facilitating comparison with the existing Operating Fund Policy is also provided.

At this time, the Ad Hoc Committee neither recommends nor proposes the draft policy. The draft policy is provided for the sake of raising issues, inviting comment, and fostering discussion.

We thank our fellow directors for entrusting us with this project, and we look forward to discussing how best to bring this project to a successful conclusion.

Prepared by Directors Mahoney and Levine Board Meeting Date: March 24, 2023
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