



STAFF REPORT

DATE: October 9, 2023

TITLE: 2024 Annual Budget and Assessment

RECOMMENDATION:

By Motion:

The Board of Directors adopts:

1. 2024 Annual Budget Exhibits A - J; and
2. Development Fund Assessment at \$867 (+\$173 from 2023); and
3. Replacement Reserve Fund Assessment at \$900 (+\$35 from 2023); and
4. New Equipment Fund Assessment at \$30 (+\$30 from 2023); and
5. Operating Fund Assessment at \$1,186 (+\$121 from 2023); and
6. Total 2024 Annual Assessment \$2,983 (+\$359 from 2023)

By Motion:

The Board of Directors approves changing the Recreation Fee Period from May 1 – April 30 to January 1 – December 31, effective May 1, 2024. For the 2024 fiscal year, a pro-rated Recreation Fee will be offered at \$250 for the 2-person pass and \$410 for the 4-person pass, and the additional per-card fee is \$140; all expiring January 1, 2025.

BACKGROUND:

Tahoe Donner Association staff is pleased to present the 2024 Budget to the Board for consideration for adoption at Budget Workshop #3 or to provide further feedback and adjustments to adopt at the October 20, 2023 Special Budget Meeting if needed.

Staff has been working on the budget since mid-July. A budget is developed for each amenity by the Director of Finance and sent to the respective managers and/or directors for review. The September 14, 2023 Budget Workshop #1 focused on the Operating Fund. At that workshop, an Operating Fund contribution from the assessment was presented as \$1,210 per property owner, an increase on 2023 of \$145 or 13.6%. With further work and reassessing operational efficiencies, having received the final insurance costs and reviewing revenues further, the presented contribution from the assessment to the Operating Fund is \$1,186. This represents a \$24 decrease from Workshop #1 and a \$121 (11%) increase from 2023.

Much work has gone into reviewing the Replacement Reserve, Development, and New Equipment capital funds. The initially proposed budget contribution from the assessment, along with a proposed 20-year plan and a 10-year capital improvement schedule with associated estimated costs and fund balances, were presented at Budget Workshop #2 on September 28, 2023. Factoring Board input from that meeting, updated capital funds are presented today; however, the assessment contribution to each fund did not change from Workshop #2.

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 2024 Annual Budget, which includes the Operating, Replacement Reserve, Development and New Equipment Fund budgets, in addition to long-term capital plan assessment appropriation of the Replacement Reserve and Development Funds. See Exhibits A-J.

Operating Fund

Operating Fund Revenue

Operating revenues from all amenities consolidate to over \$18.5M, an 8% increase on Budget 2023 and a 4% increase to Forecast 2023. Factored into the revenues include the assumption that the Downhill Ski Lodge will be under construction in December 2024, and reduced revenues, most notably anticipated at winter F&B and rentals.

Recreation Fee (Rec Fee) revenue is anticipated to generate \$1.66M in 2024. This represents \$320K of revenue from the 2023/2024 Rec Fee period recognized in Jan. – April 2024. Staff has proposed a pro-rated reduction to the Rec Fee of 20% based on the previously provided rates. The usage of private amenities between May and December represents an average of 80% over the years 2018, 2019 and 2022.

Private amenity daily access rates are proposed to remain the same as 2023; Member \$12, Accompanied Guest \$15 and Unaccompanied Guest \$20. Staff proposed the option of peak pricing for Unaccompanied Guests during certain peak times; however, given the Amenity Access Policy is under review, a board consensus was that introducing a new pricing tier this year was best avoided. A summary of revenue per visit per category can be found in the 2024 Budget Workshop #3 presentation.

Inflation-related increases in winter daily access and season pass pricing were deemed appropriate by staff and implemented in Budget 2024. This represents an approximate 4% - 6% increase on all winter products at Downhill Ski and Cross Country.

Staff continue to look at revenue-generating opportunities and further utilize the amenities. Such opportunities include the continuation of music/game events at several of the F&B outlets. Small banquet/group opportunities exist at the newly renovated Pavilion and staff are focused on showcasing that part of The Lodge and increasing revenue from that facility.

Operating Fund Expense

The 2024 Budget reflects total expenditures of \$26,200,201, an increase over 2023 of \$2,132,713 or 9%. Payroll expense represents 66% of the Association's overall operating cost. It is a cost that continues to place considerable pressure on the budget to be competitive in the local market to attract and retain the best employees, an operating principle identified in Operating Policy Resolution 2023-3.

The 2024 budget reflects a 4% salary increase along with the impact of a comprehensive compensation study undertaken starting in 2021 and completed in 2023, adding a further 3% to what is forecast for 2023. Hourly labor savings were realized in 2023 due to the delayed opening in Golf Operations. This, in part, contributes to a 7% increase in hourly labor over what is forecast for 2023. California minimum



wage will increase from \$15.50 in 2023 to \$16 in 2024. To be competitive in the local region, entry-level positions are paid more than the minimum wage. Incentive and retention programs remain budgeted at 40% of eligibility, with the remaining 60% potentially covered by any or part of budget surplus generated in 2024.

Property Casualty Liability insurance has increased. The combined premium covering all lines of coverage (commercial liability, property, auto, pollution, cyber, etc.) has increased by \$279,000 or 20% from 2023. This represents a \$43 increase per owner for 2024. An 8% increase in Workers Compensation coverage is also factored into the 2024 budget. This represented a \$5.59 increase per property owner, while brokerage fees increased 10% from the prior year. Health insurance premiums increased 6% over the prior year.

Utility costs remain high but have leveled out compared to the increases seen over the past few years.

The Board adopted Operating Fund Policy Resolution 2023-3. Subsection Operating Fund Contingency Reserves (OFCR) Balance, states “beginning in the 2024 budget year, the minimum OFCR balance shall be increased incrementally over 3 to 5 years until it reaches the greater of \$2 million and 10% of the annual operating expenses, at the discretion of the Board.” The beginning balance of the OFCR in 2024 is estimated to be \$1.85M, an increase of approximately \$135,000 over 2023.

Staff anticipates the Board will discuss the OFCR balance and Policy 2023-3 requirements at the 2024 Budget Workshop #3. This discussion may result in funding the OFCR through a variety of options available, including the 2024 Annual Assessment, other funding, and/or board direction to staff to add the topic at a future board meeting.

The Operating Fund budget is attached as Exhibit A.

Summary Operating Fund Profit and Loss Chart

	2021 Actual	2022 Actual	2023 Budget	2023 Forecast	2024 Budget	2024 Bud vs 2023 F/cast	2024 Bud vs 2023 Bud
Rec Fee Income	\$1,340,250	\$1,586,515	\$1,332,000	\$1,580,000	\$1,660,428	\$80,428	\$328,428
Access Fees	\$5,286,643	\$6,447,826	\$6,323,195	\$6,525,886	\$6,607,233	\$81,347	\$284,038
Food and Beverage	\$2,507,619	\$3,791,169	\$3,909,011	\$3,886,633	\$4,343,185	\$456,552	\$434,174
Retail	\$491,842	\$668,531	\$574,959	\$563,745	\$600,254	\$36,509	\$25,295
Lessons and Rentals	\$2,682,182	\$3,644,807	\$3,743,634	\$4,014,990	\$3,975,193	-\$39,796	-\$231,559
Other Income	\$939,197	\$1,432,277	\$1,290,028	\$1,204,071	\$1,337,675	\$133,604	\$47,647
Total Gross Revenue	\$13,247,732	\$17,571,124	\$17,172,827	\$17,775,324	\$18,523,969	\$748,644	\$1,351,142
COGS	-\$1,103,995	-\$1,637,028	-\$1,594,633	-\$1,612,108	-\$1,663,104	-\$50,996	-\$68,471
Gross Margin	\$12,143,738	\$15,934,096	\$15,578,194	\$16,163,216	\$16,860,864	\$697,648	\$1,282,670
Payroll	-\$12,176,586	-\$15,243,526	-\$15,669,145	-\$15,978,493	-\$17,207,340	-\$1,228,847	-\$1,538,195
Operating Expense	-\$5,760,635	-\$7,350,388	-\$7,195,609	-\$7,265,609	-\$7,889,733	-\$624,124	-\$694,124
Net Operating Revenue	-\$5,793,484	-\$6,659,818	-\$7,286,560	-\$7,080,885	-\$8,236,208	-\$1,155,323	-\$949,648
Overhead Charged to Other Funds	\$197,000	\$305,020	\$391,899	\$429,399	\$559,976	\$130,577	\$168,077
Net Operating Revenue after Overhead Allocati	-\$5,596,484	-\$6,354,798	-\$6,894,661	-\$6,651,486	-\$7,676,232	-\$1,024,746	-\$781,571
Per Property Assessment	\$865	\$982	\$1,065	\$1,028	\$1,186		
Assessment Increase (Decrease) v 2023					\$121		



Capital Funds

Replacement Reserve Fund

Tahoe Donner is required to have a Reserve Study to address the funding and plan to address the major components of the Association, as required by the Davis-Stirling Act governing common interest developments in California and Tahoe Donner Replacement Reserve Fund Policy Resolution 2019-1. 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 the Association can plan and use for funding purposes annually. Tahoe Donner completed the last 3-Year Reserve Study in 2022 and annually completes a review and update of upcoming components and estimated costs.

On the 30-Year Cash Flow Report (Exhibit F), an annual inflation rate of 2.5% and a 2% interest rate on funds are factored in. 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 the reserve study's future years percent funded and cash balances, in order to minimize the need for large adjustments in future years.

In July of 2023, the Community Association Institute released revised Reserve Study Standards in part due to the Champlain Towers South collapse in Surfside, Florida, over two years ago. The primary intent of the standards update was to broaden the study language and incorporate aspects of maintenance and structural integrity.

Tahoe Donner has begun to incorporate these changes, which will be phased in over several years. Such changes have greatly impacted the percent funding levels in the coming years. When referencing the 30-Year Cash Flow Report, it is noted that the percent funding level drops below the 25% policy level.

Therefore, included in the proposed 2024 budget is a \$900 assessment contribution to the Replacement Reserve Fund (RRF) portion of the Annual Assessment, a \$35 or 4% increase over the prior year. It is anticipated that in the coming years, with further adoption of the revised standards and any updates to TDA capital policies, an increased contribution to the RRF will be required.

The 2024 Replacement Reserve Fund Budget (Exhibit H), 30-Year Expenditure (Exhibit I), 30-Year Cash Flow (Exhibit F) and AICPA by Location (Exhibit G) are attached.



Replacement Reserve Fund Summary

	Forecast 2023	Budget 2024
Beginning balance	\$15,629,024	\$16,176,787
Assessment Funds	\$5,599,145	\$5,825,700
Interest Income	\$303,471	\$253,094
Salvage Receipts	\$26,034	\$26,000
Expenditures		
Consulting	-\$14,135	-\$16,500
Bad Debt	-\$23,083	-\$26,000
Income Tax	-\$12,498	-\$17,500
Overhead / Payroll Allocations	-\$203,000	-\$281,000
Capital Additions / Expenditures	-\$5,128,171	-\$10,385,413
Ending Balance	\$16,176,787	\$11,555,168

New Equipment Fund

The New Equipment Fund (NEF) was established to acquire new association assets identified to improve operational efficiencies, and new equipment to support or enhance services, programs and activities of the membership. Budget Workshop #2 proposed a \$30 contribution per owner from the assessment, the NEF has not been funded over the past several years. Per Resolution 2017-4 “A contingency reserve minimum balance of \$25,000 will be maintained in the NEF, with Board approval required to draw down below this balance.” Upon further analysis, staff recommends the per property contribution to remain at \$30 per owner determined by the projected fund balance at the end of 2023 and the anticipated investment in 2024.

The 2024 New Equipment Fund Investment schedule is attached as Exhibit J.

New Equipment Fund Summary

	Forecast 2023	Budget 2024
Beginning balance	\$269,669	\$39,377
Assessment Funds	\$0	\$194,190
Interest Income	\$7,598	\$5,553
Expenditures		
Capital Additions / Expenditures	-\$237,890	-\$105,000
Contingency	\$0	-\$95,000
Ending Balance	\$39,377	\$39,120



Development Fund

The 2024 Budget includes the final year of a four-year funding plan established by the Board in 2020 and annually reaffirmed by each board when adopting the annual budget. The funding plan was proposed to increase the Development Fund by 25% each year over a four-year period to ensure adequate capital funding to address future building replacement of the many 50+ year-old association facilities and other large-scale capital improvements. This foresight by the boards and supported by committee work has situated the Association to ensure that capital funding is available in a planned fashion and avoids the need for special assessments for these investments. As seen in the 2024 Budget Workshop #2 and #3 presentations, the board is responsibly planning and preparing for these.

Included in the proposed 2024 Budget is the 10-Year Development Fund Investment Projection (Exhibit E). Staff has identified and scheduled many projects ranging from replacing the Downhill Ski Lodge to trails and open space projects, which over the next ten years, including inflation, is approximately \$76M in investment. Each project contained in the plan is subject to further review and approval by the Board of Directors.

The Development Fund's ten-year investment projection is attached as Exhibit E.

Development Fund Summary

	Forecast 2023	Budget 2024
Beginning balance	\$12,664,267	\$15,394,855
Assessment Funds	\$4,492,262	\$5,612,091
Interest Income	\$124,589	\$529,000
Operating Surplus Transfer	\$0	\$0
Expenditures		
Income Tax Expense	-\$5,498	-\$42,000
Bad Debt Expense	-\$14,583	-\$7,000
Overhead / Payroll	-\$170,000	-\$226,000
Capital Additions / Expenditures	-\$1,696,182	-\$18,076,000
Inflation	\$0	-\$732,080
Ending Balance	\$15,394,855	\$2,452,866

OUTREACH:

As with the past few years, staff set a goal to inform the members of the 2024 budget process, key drivers and assumptions. 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:** 9/14, 9/28, 10/12
- **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



- **Weekly Tuesday Emails:** 7 consecutive weeks of info in a weekly email
- **2024 Budget Webpage:** Created a one-stop webpage for all budget information, meeting recordings and presentations
- **Feedback Form:** Created and integrated into the 2024 Budget webpage
- **Message from the Management:** 9/29 email
- **Budget Timeline Graphic:** Featured in September and October *TD News* with meeting dates

FISCAL IMPACT:

The proposed 2024 Annual Assessment is \$2,983, a \$359 (13.7%) increase over 2023.

ALTERNATIVE:

The 2023 Budget expires on December 31, 2023. Additionally, the Board is required to provide and notify the membership no later than 45 days of the new budget and Annual Assessment.

The Board has several alternatives,

1. The Board may choose to adopt the budget at this time with modifications; or
2. If the Board chooses not to adopt the budget at this time, a Special Board Meeting will be scheduled for October 20, 2023, where additional information may be provided for another opportunity to adopt the 2024 Budget.

ATTACHMENTS:

- Exhibit A: 2024 Operating Fund Budget Summary
- Exhibit B: 20-Year Capital Plan
- Exhibit C: 10-Year Capital Improvement Plan
- Exhibit D: 2024 Capital Improvement Projects
- Exhibit E: 10-Year Development Fund Investments Projection
- Exhibit F: Reserve Study 30-Year Cash Flow
- Exhibit G: Reserve Study AICPA by Location Report
- Exhibit H: 2024 Replacement Reserve Fund Budget
- Exhibit I: Reserve Study – 30-Year Expenditure Report
- Exhibit J: 2024 New Equipment Budget

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

Reviewed By: Annie Rosenfeld, Interim General Manager

Board Meeting Date: October 12, 2023