

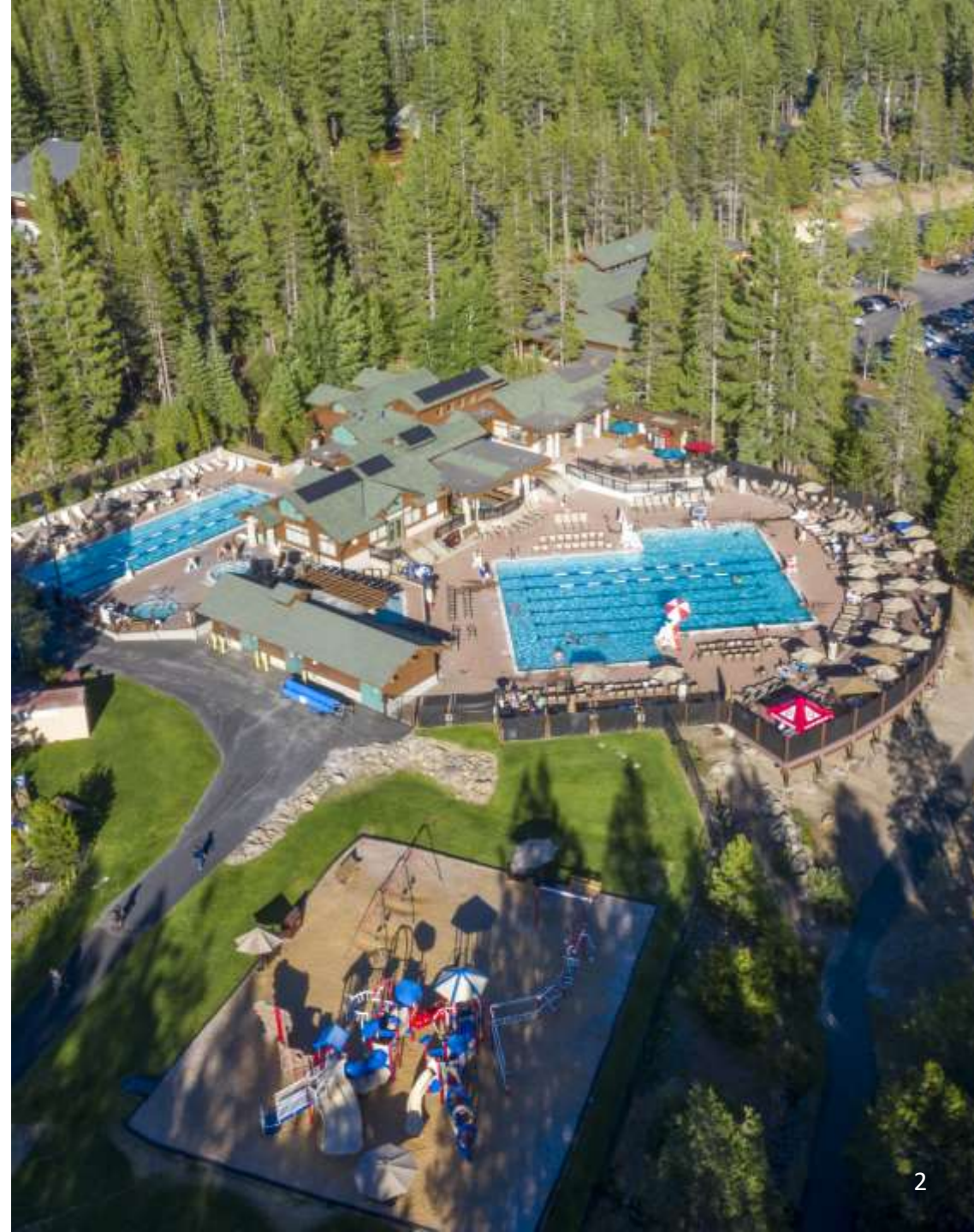
# **CAPITAL POLICIES UPDATE**

## **Report of the Ad Hoc Committee of the Board**

**JANUARY 26, 2024 BOARD OF DIRECTORS MEETING**

# PROJECT OVERVIEW

- Update Capital Funds policies to align with the new 2023 Community Association Institute Reserve Study Standards
- Identify (i) how much capital do we need to invest in our properties, (ii) when do we need to invest, and (iii) how to pay for the investment
- Policy adoption in time for the 2025 budget process (August – October 2024)
- This initiative addresses a key 2024 Annual Strategic Objective





# GUIDING PRINCIPLES

*“Meet our responsibilities in a practical way”*

- Materiality trumps acute accuracy
  - Directional accuracy over precision
- Expect refinements over next three years
  - Phased implementation
  - Refine/adjust as we go
- Build in flexibility for the future
  - Changed circumstances (legal, environmental, etc.)
  - Changing member needs/desires (e.g., pickleball)
- Manage impact on annual assessment



# CURRENT CAPITAL FUNDS

Fund	Description (Current)	<u>Sample</u> Potential Changes
Replacement Reserve	<ul style="list-style-type: none"> <li>Common area components with value &gt;\$2,000 (<i>excluding</i> building shells)</li> <li>Qualifying maintenance projects</li> </ul>	<ul style="list-style-type: none"> <li>Inflation adjustment for included components</li> <li>Defining qualifying maintenance projects</li> </ul>
Development	<ul style="list-style-type: none"> <li>Major capital projects including near-term building replacement, inclusive of existing and enhancements</li> <li>Does NOT address long term building replacement</li> </ul>	<ul style="list-style-type: none"> <li>Inclusion of building shells</li> <li>Inclusion all long-term building replacement</li> <li>Unknown future projects (e.g., land acquisition)</li> <li>Separate Building Replacement Fund</li> <li>Segregate: <ul style="list-style-type: none"> <li>Replacement of existing equivalent</li> <li>Enhancement to existing equivalent</li> </ul> </li> </ul>
New Equipment	<ul style="list-style-type: none"> <li>New capital acquisitions for operations or service to members</li> </ul>	<ul style="list-style-type: none"> <li>Keep?</li> <li>Merge with Development?</li> </ul>

# POLICY UPDATE TOPICS

Topic	Options /Issues	Recommendation	Board Direction
Number & Type of Funds – Keep or change?	<ul style="list-style-type: none"> <li>• Keep current fund structure</li> <li>• Existing building replacement to RRF (“components of the Association”)</li> <li>• Separate Building Replacement Fund</li> </ul>	<i>Next phase</i>	<i>Next phase</i>
What goes where?	<ul style="list-style-type: none"> <li>• Common area components other than building</li> <li>• Qualified common area maintenance</li> <li>• Existing building shells (functional equivalent)</li> <li>• Enhancements to existing facilities</li> <li>• “New equipment”</li> <li>• Unknown assets purchases / acquisitions (e.g., land)</li> </ul>	<i>Next phase</i>	<i>Next phase</i>
Cost basis	<ul style="list-style-type: none"> <li>• Regular/periodic update to assumptions to stay current               <ul style="list-style-type: none"> <li>• Building components &amp; qualifying maintenance</li> <li>• Construction costs</li> </ul> </li> <li>• Cost basis for future building replacement               <ul style="list-style-type: none"> <li>• Generic?</li> <li>• Project specific?</li> </ul> </li> </ul>	<i>Next phase</i>	<i>Next phase</i>

# POLICY UPDATE TOPICS (CONT.)

Topic	Options /Issues	Recommendation	Board Direction
Building Replacement	<ul style="list-style-type: none"> <li>• Time horizon: 20 yrs.? 30 yrs.? 50 yrs.?</li> <li>• How estimate future functional equivalent?</li> <li>• Enhancements: reserved for separately or within comprehensive project budget?</li> <li>• Integration with existing Capital Funds Projection</li> </ul>	<i>Next phase</i>	<i>Next phase</i>
Adequacy measures	<ul style="list-style-type: none"> <li>• % Funded</li> <li>• Cash Flow</li> <li>• Same metric all funds or fund-specific metrics</li> </ul>	<i>Next phase</i>	<i>Next phase</i>
Investment implications	<ul style="list-style-type: none"> <li>• Availability of funds, particularly building replacement</li> <li>• Scenario planning for investment needs</li> </ul>	<i>Next phase</i>	<i>Next phase</i>
Borrowing between funds	<ul style="list-style-type: none"> <li>• From RRF only</li> <li>• From select multiple funds</li> <li>• From any fund</li> </ul>	<i>Next phase</i>	<i>Next phase</i>
Transition plan / phasing	<ul style="list-style-type: none"> <li>• Prioritization</li> <li>• Sequencing</li> <li>• Practicalities</li> <li>• Impact on Assessments</li> </ul>	<i>Next phase</i>	<i>Next phase</i>

# WORKPLAN

- Develop recommendations
  - Involve staff
  - Involve other appropriate resources, e.g., reps from Finance Committee
  - Analysis: Existing cash projections & component inventories (reality check)
  - Form recommendations on the topics and issues listed above
- Deliver recommendations to the Board for review / direction
  - February Board meeting
  - Board guidance on the conceptual outline
- Policy drafting with board guidance along the way
  - March - April
- Policy adoption
  - May





# TIMELINE

When	12/15 Motion: targets	Workplan	Who
January	Conceptual Outline / Big Picture	Board reviews topics / issues outline	Koenes, Mahoney
Jan - Feb		Formulate recommendations on issues and topics in the conceptual outline	Koenes, Mahoney
February	Draft 1 Board Feedback	Board review & direction on recommendations re: addressing topics & issues in formal policy	Koenes, Mahoney
Feb -Mar	Draft 2 Board Feedback	Formal policy draft 1 / Board feedback	Koenes, Levine (TBD)
April	Draft 3 Board Feedback	Formal policy draft 2 / Board feedback	Koenes, Levine (TBD)
May	Board Approval	Board Approval	Koenes, Levine (TBD)

*\* Refined timeline above will require minor adjustments to the 12/15 board action*



# DISCUSSION