

# CAPITAL POLICIES UPDATE

## Report of the Ad Hoc Committee of the Board

FEBRUARY 23, 2024, BOARD OF DIRECTORS MEETING



TAHOE DONNER<sup>SM</sup>

# PROJECT OVERVIEW

- Update Capital Funds policies to align with the new 2023 Community Association Institute Reserve Study Standards
- Update policies for identifying (i) how much capital we need to invest in our properties, (ii) when 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





# TODAY'S UPDATE OBJECTIVES

- Review topics/issues presented at the January 26 regular board meeting
- Update the Board on the Ad Hoc Committee activities since the January 26 regular board meeting
- Review of the December 15, 2024, Ad Hoc Committee motions to facilitate discussion and possible board action to amend motions
- Provide the Board the opportunity to give feedback and input on the project



# POLICY UPDATE TOPICS – JAN 26, 2024, BOARD MEETING

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.) - JAN 26, 2024 BOARD MEETING

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>



# INFORMAL WORKING GROUP SCHEDULE AND TOPICS OF DISCUSSION

Feb 5: Path to Policy + Policy Drafting Options + Modeling Approach

Feb 12: **Policy Issues**: Expense Cost-Estimate Options

Feb 26: **Model**: Strawman Model Review/Refinement + Pros/Cons  
of Facility Replacement Fund Options

Mar 6: **Policy Issues**: Funds + Timing

March 11 **Model**: Stress Test

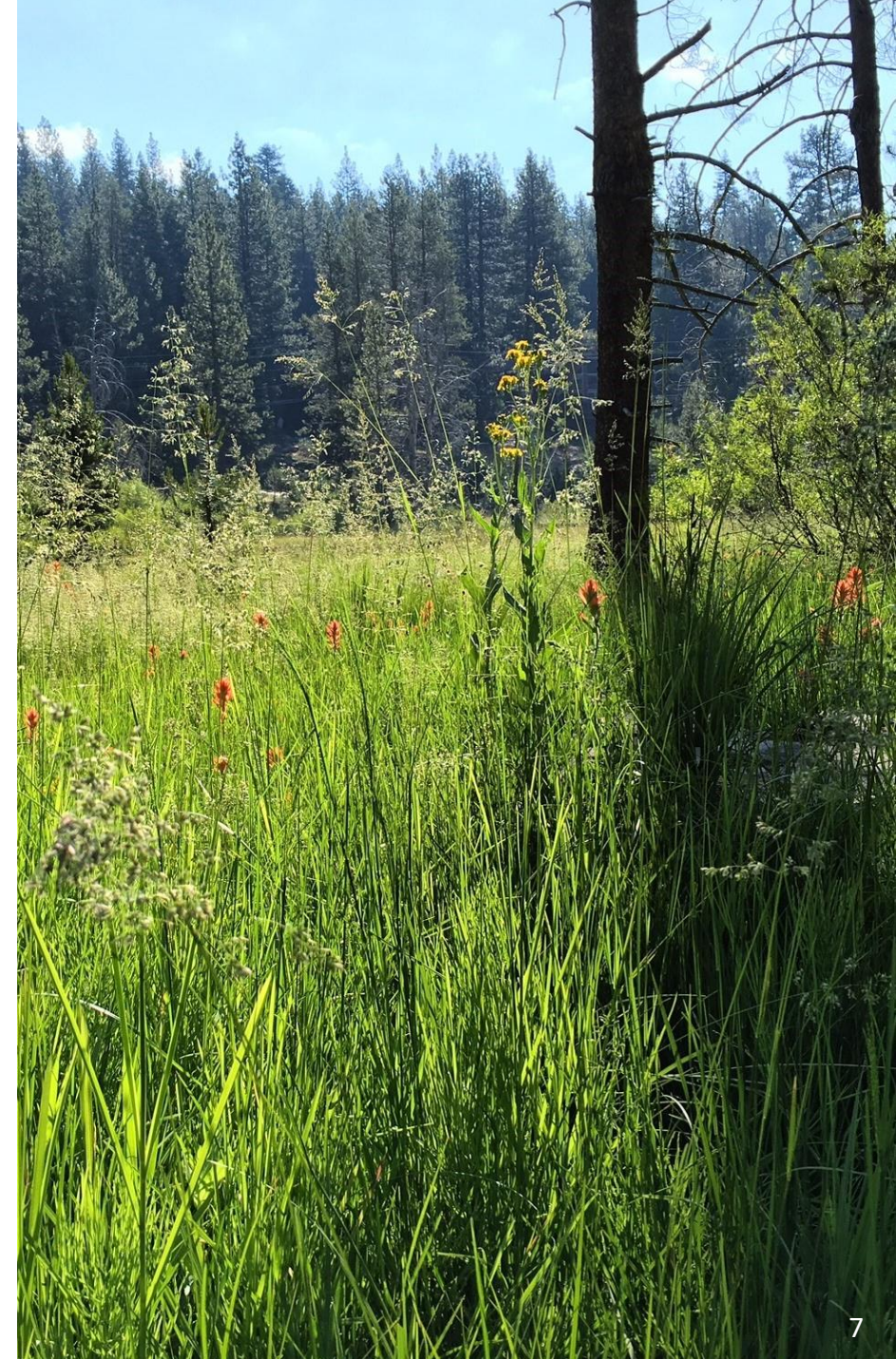
March 18: **Policy Issues**: Sufficiency Measures  
[Board workshop]

March 25: **Model**: Reality Check (Assessment, Sufficiency, and  
Transition Scenarios)

April 1: **Policy Issues**: Naming Conventions + Open Issues +  
Recommendations for Board Workshop

[Board workshop]

April 22: **Policy Issues**: Initial Policies Draft Review





# INFORMAL WORKING GROUP

## PURPOSE + VALUE OF A MODEL

### PURPOSE:

- Provides a means to test the potential impact of policy options for more informed decision-making

### VALUE:

- Move theoretical discussions to practical functionality and evaluation
- Helps to reach practical solution(s) quicker
- Provides a clearer picture for enhancing the roadmap of long-term reinvestment in facilities
- Inform on a practical transition plan to full implementation
  - Predictions on the impact of the assessment over a long-term horizon
  - Fund availability for projects
  - Appropriateness of adequacy measures





# PATH TO POLICY WORKPLAN

- Developing 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
  - March workshop
  - April workshop
- Policy drafting with board guidance along the way
  - April - May
- Policy adoption
  - May



# PATH TO POLICY TIMELINE

## February 2024

Sun	Mon	Tue	Wed	Thu	Fri	Sat
					1	2
	4	5	6	7	8	9
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29		

## March 2024

Sun	Mon	Tue	Wed	Thu	Fri	Sat
						1
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

### Working Group

Feb 5: Path to Policy + Policy Drafting Options + Modeling Approach  
Feb 12: **Policy Issues**: Expense Cost-Estimate Options

Feb 26: **Model**: Strawman model Review/Refinement + Pros / Cons of Facility Replacement Fund Options

Mar 6: **Policy Issues**: Funds + Timing

March 11 **Model**: Stress Test

March 18: **Policy Issues**: Sufficiency Measures

March 25: **Model**: Reality Check (Assessment, Sufficiency and Transition Scenarios)

### Board of Directors

Feb 23: **Board Meeting**  
Ad Hoc Committee Update  
Discuss and consider modification(s) to the Dec 15, 2023, motions

~Week of Mar 18: **Board Workshop 1**  
- RRF  
- NEF  
- DF *Non-Facility Element*  
- Facility Replacement and Enhancement

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



# PATH TO POLICY TIMELINE

## April 2024

Sun	Mon	Tue	Wed	Thu	Fri	Sat
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

## May 2024

Sun	Mon	Tue	Wed	Thu	Fri	Sat
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

### Working Group

April 1: **Policy Issues**: Naming Conventions + Open Issues + Recommendations for Board Workshop

April 22: **Policy Issues**: Initial Policies Draft Review

(Finance Committee Review TBD)

### Board of Directors

~Week of April 8: **Board Workshop 2**

- Funding Concepts (Cost basis, Facility replacement, enhancement, renovation)

- Funding adequacy measures, Investment Implications, inter-fund borrowing

- Transition plan/phasing

- Scope of policy updates

April 26 (Regular Board Meeting):  
**Initial Policies Draft Review Policy**

May 24 (Regular Board Meeting):  
**Policy Adoption by Board** (target)  
*Policy needs to be in place by July for 2025 budget actuation; June special meeting or June regular meeting if needed for additional consideration)*

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

# REVIEW OF THE DECEMBER 15, 2024, BOARD ACTION

## FIRST MOTION

1. Form an Ad Hoc Committee of the Board of Directors for the purpose of completing work on Objective C1 (Capital Policies Update) of the 2024 Annual Strategic Objectives.
2. Direct staff to provide the Ad Hoc Committee with the assistance and resources needed to complete its work.
3. Authorize the Ad Hoc Committee to involve committees as the Ad Hoc Committee believes helpful and appropriate to assist with the completion of its work.
4. Authorize the Ad Hoc Committee to involve individual committee members and other Association members with relevant experience and/or expertise to assist with the completion of its work.
5. Direct the Ad Hoc Committee to present periodic capital policy drafts and reports to the Board of Directors to obtain feedback and further direction.
6. Establish the following task schedule targets:
  - a. January: Conceptual Outline/Big Picture board discussion
  - b. February: Draft 1 board feedback
  - c. March/April: Draft 2 board feedback
  - d. May: Final board approval for updated capital policies

## SECOND MOTION

1. Appoint Directors Koenes and Mahoney to the Ad Hoc Committee to complete task 6a.
2. Appoint Directors Levine and Mahoney to the Ad Hoc Committee to complete tasks 6b - 6d.



# AD HOC SUBCOMMITTEE OF THE BOARD

## DISCUSSION

The Board will discuss and may modify the motions of December 15, 2024, to address

1. The project schedule as presented herein
2. The Board makeup of the Ad Hoc Subcommittee



# DISCUSSION