

# CAPITAL FUND POLICIES UPDATE WORKSHOP

MARCH 29, 2024, BOARD OF DIRECTORS MEETING



**TAHOE DONNER™**

# TODAY'S WORKSHOP OBJECTIVES

- The Board will provide guidance and direction on conceptual aspects of the capital funds policies update
  - Project objectives
  - Capital funds framework
- Update the Board on the working group activities since the February 23 regular board meeting
- Review the next steps of the project



# PROJECT OUTCOMES

- 2024 Annual Strategic Objective implemented
- The Capital Funds Policies and associated Funding Plans and/or Projections are updated
- Policy adoption in time for the 2025 budget process (August – October 2024)
- An implementation plan is provided if there are changes to the funding plan and assessment projections
- Organizational alignment on long-range financial planning and policy implementation



# 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 (target)



# GUIDING PRINCIPLES

*“Meet our responsibilities in a practical way”*

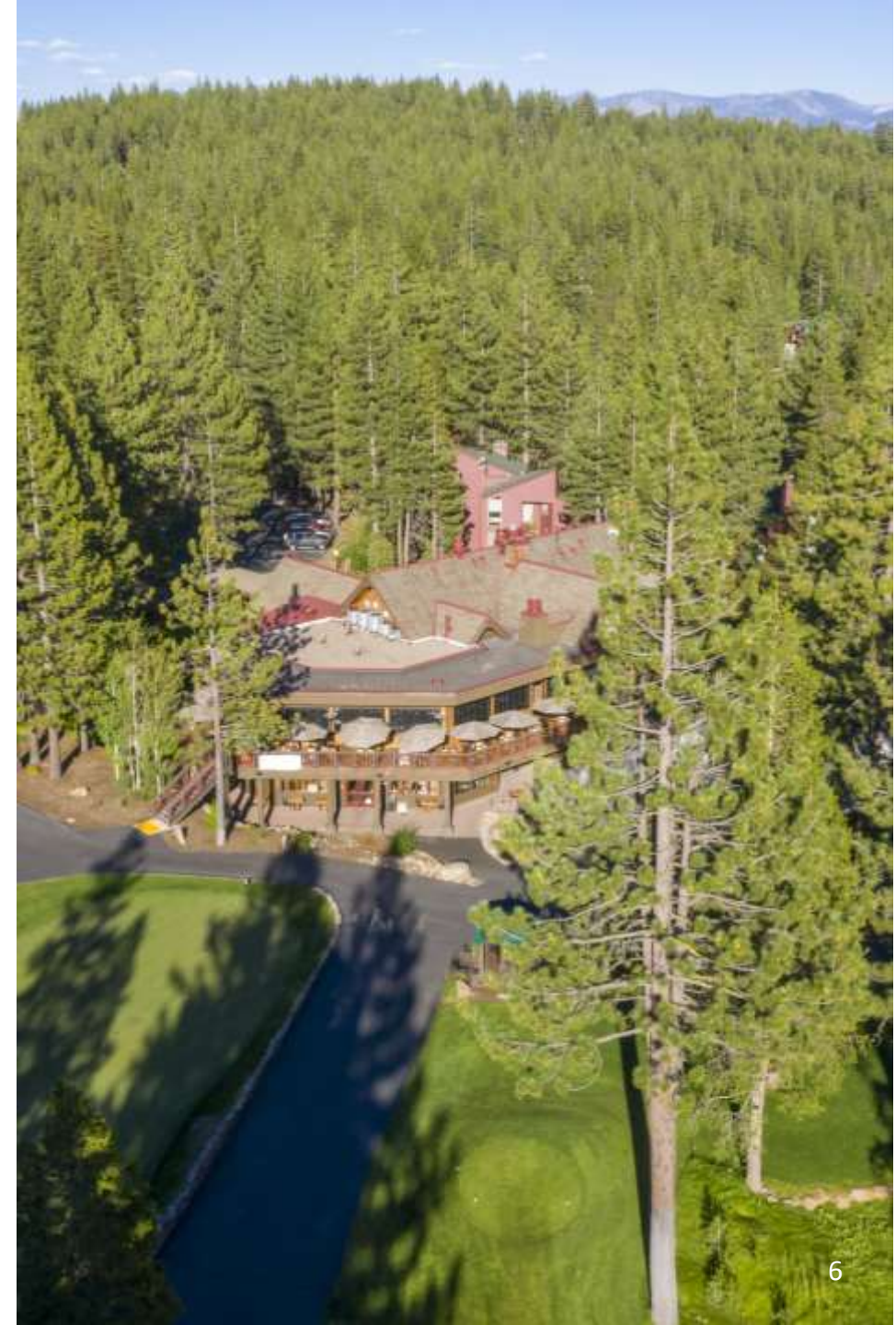
- Materiality trumps acute accuracy
  - Directional accuracy over precision
- Expect refinements over the next three years
  - Phased implementation
  - Refine/adjust as we go
- Build in flexibility for the future
  - Changed circumstances (legal, environmental, etc.)
  - Changing member needs/desires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



# PROJECT OBJECTIVES

Seeking Board consensus on:

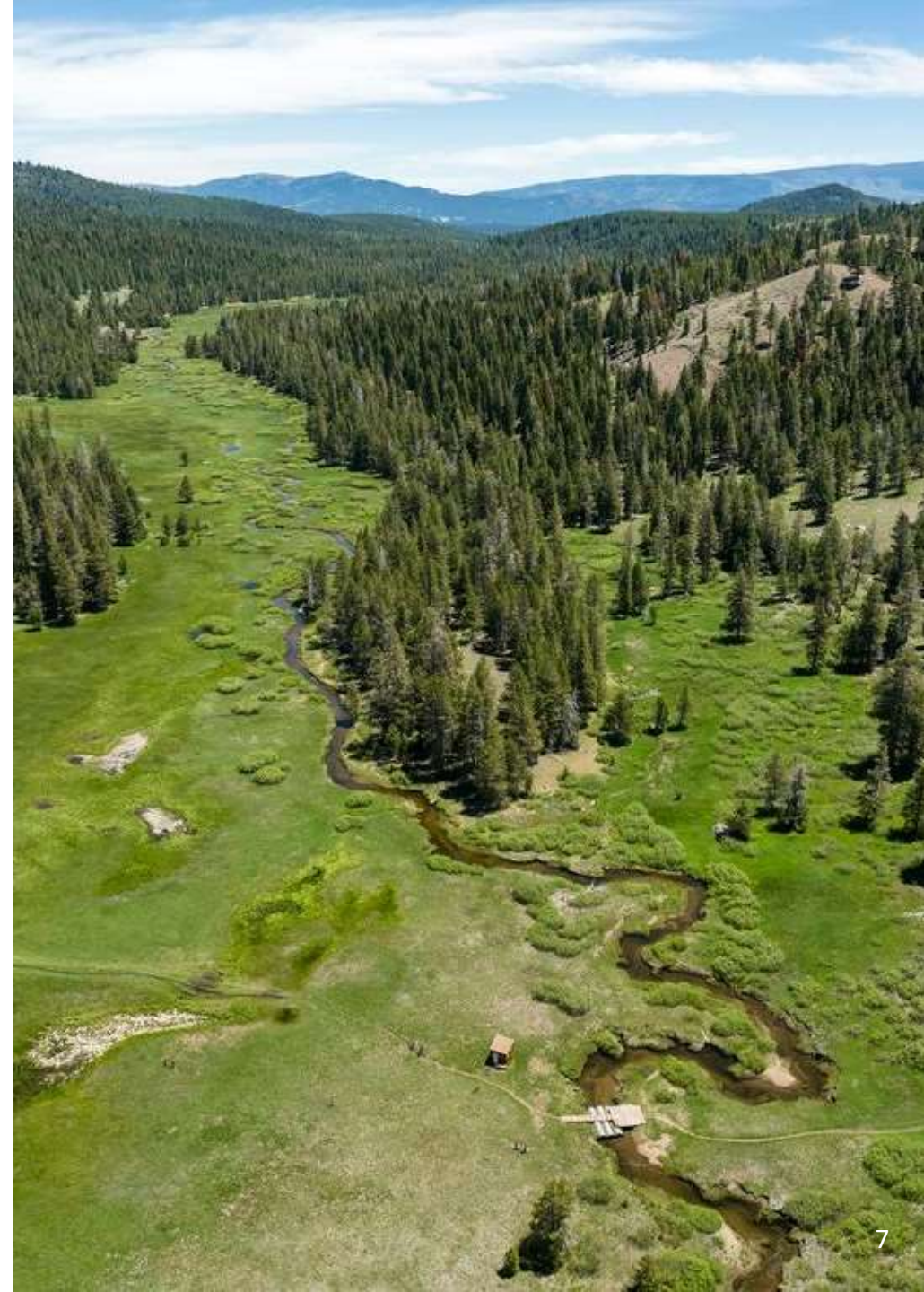
- 2023 Community Association Institute (CAI) Reserve Study Standards
  - Align and integrate standards with policies
  - Break down where the board has optionality
- Facility Replacement
  - Reinforce facility replacement in policies and funding plan
- Financial Planning
  - Sustainable and equitable capital funding plan
  - Budget process to be more consistent year-to-year; the ideal budget process looks more like the Replacement Reserve Fund plan



# PROJECT OBJECTIVES CONT.

Seeking Board consensus on:

- Assessment Impact
  - Have a transition plan if needed
  - Forecast for planning: 2025; 3 to 5 year; 10 and/or more years
- Other policy improvements
  - Terminology and definitions
  - Update procedures and processes to either course correct, evolve, and/or replace practice
  - Strengthen policies further legal and Governing Documents requirements



# CONCEPTUAL TOPICS CAPITAL FUNDS FRAMEWORK

Number & Type of Funds – Keep or Change?	What Goes Where?	Planning Horizon	
<ul style="list-style-type: none"> <li>• Keep current fund structures</li> <li>• Existing building replacement to RRF (“components of the Association”)</li> <li>• Separate Building Replacement Fund</li> </ul>	<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>	Current	<ul style="list-style-type: none"> <li>• 10-Year Capital Improvement Projection</li> <li>• 20-Year Capital Improvement Plan</li> <li>• 30-Year Reserve Study</li> </ul>
		New Reserve Study Standards	<ul style="list-style-type: none"> <li>• Long-life components 31+ years</li> <li>• Building Replacement 30+ years</li> </ul>



# CAPITAL FUNDS FRAMEWORK NEW EQUIPMENT FUND

Seeking Board consensus on:

Options Reviewed	Pros of Current Structure	Cons of Current Structure	Recommendations
<p>New Equipment Fund (NEF)</p> <p>The NEF includes funding for operational new purchases to improve efficiency, effectiveness, new services or program asset investment</p>	<p>Provides capital funds for purchasing equipment, machinery, technology, etc. that meet the definition of a capital asset</p> <p>Provides flexibility to adjust in real-time to innovation and organizational needs</p> <p>Includes large asset purchases</p>	<p>Missing the programmatic savings to reflect the short-term (3-year) operating plan</p> <p>Current perception of NEF annual contribution as being discretionary</p>	<p>Minor update</p> <p>Keep the NEF</p> <p>Create a minimum level of programmatic savings and increase the minimum balance</p>

\*Note: Pros and Cons for each fund is not the exhaustive list

# CAPITAL FUNDS FRAMEWORK REPLACEMENT RESERVE FUND

Seeking Board consensus on:

Number & Type of Funds – Keep Or Change	Pros	Cons	Recommendations
<p>Replacement Reserve Fund (RRF)</p> <p>The Replacement Reserve Fund includes components of existing association-owned Common Area components</p>	<p>Required by the Davis-Stirling Act and Tahoe Donner Governing Documents</p> <p>Community Associations Institute Reserve (CAI) Study Standards support and guide the management and preparation of the Reserve Study and funding plan</p> <p>Accounts for long-life components including but not limited to bridges, parking lots, structures and/or facilities</p> <p>Includes programmatic savings for the 30-year period</p> <p>Demonstrates that we are on track and upholding responsibilities and focused transparency</p>	<p>With the Reserve Standard changes in July 2023,</p> <ul style="list-style-type: none"> <li>the policy doesn't include long-life components that have a remaining useful life of 31+ years</li> <li>missing certain components relating to inspections and other maintenance components that are now eligible as components</li> </ul>	<p>Comprehensive policy update</p> <p>Adopt CAI Reserve Study Standards into policy</p> <p>Keep RRF structure as it exists; keeping facility replacement in the Development Fund</p> <p>Long Life Components:</p> <ul style="list-style-type: none"> <li>Include an inventory for long-life components that have a remaining useful life of 31+ years</li> <li>When component(s) reach a remaining useful life of 30 years or less, roll into the funding plan</li> </ul>

\*Note: Pros and Cons for each fund is not the exhaustive list

# CAPITAL FUNDS FRAMEWORK DEVELOPMENT FUND

Seeking Board consensus on:

Number & Type of Funds – Keep Or Change	Pros	Cons	Recommendations
<p>Development Fund (DF)</p> <p>The Development Fund includes facility replacement, large-scale facility enhancements, land purchase</p>	<p>Simplicity, no education of the membership</p> <p>Strategy of set funding which includes needs and wants</p> <p>Provides a purpose to create a minimum level of programmatic savings for facility replacements</p> <p>We have the option of addressing facility replacement in RRF or DF</p> <p>Provides transparency that says a portion of the DF funds the facility replacement or enhancement</p> <p>Flexibility for the timing of implementation and funding schedule for facility improvement 50 years</p> <p>Davis-Stirling compliance</p> <p>Accomplished Reserve Study Standard option for long-life components that are facility replacements</p>	<p>Doesn't make a direct correlation to the definition of what facility replacement is comprised of</p> <p>Missing the programmatic savings that are sustainable and equitable (see next Con)</p> <p>Doesn't have as much transparency on facility replacement as the Reserve Study and Replacement Reserve Fund</p> <p>Current perception of DF as being discretionary</p> <p>Does not have complete facility replacement inventory; includes only 10-year outlook</p>	<p>Comprehensive update</p> <p>Keep facility replacement in the DF</p> <p>Explore the concept of subfunds of the DF (Non-Facility Replacement and Facility Replacement)</p> <p>Create a minimum level of programmatic savings for facility replacement over a 50-year horizon based on funding principles</p> <p>Give owners a better sense of the forward forecast given well-identified assumptions</p> <p>Include large asset purchases above \$XXXXK with a funding schedule of 5-year horizon</p> <p>Improve transparency with details and definitions of enhancement, upgrade, replacement, etc. in policy updates</p>

# 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

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

[Board workshop]



# 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 8: 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 22: 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

**May TBD: Board Workshop 3  
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)*



# NEXT STEPS

- Working group wrapping up next set of recommendations on
  - Funding Concepts (Cost basis, Facility replacement, enhancement, renovation)
  - Funding adequacy measures, Investment Implications, inter-fund borrowing
  - Transition plan/phasing
- Board workshop #2
  - Review and discussion of recommendations
- Board workshop #3 Draft policy review



# DISCUSSION