



## **STAFF REPORT: 2025 Annual Budget and Assessment**

### **BOARD ACTION:**

**By Motion:** The Board of Directors approves:

1. Recreation Fees: 2-Person at \$305 and 4+Person at \$500
2. Extra Photo ID Card Fee: \$155 per card

**By Motion:** The Board of Directors adopts:

3. 2025 Annual Budget Exhibits A - J; and
4. Development Fund Assessment at \$902 (+\$35 from 2024); and
5. Replacement Reserve Fund Assessment at \$940 (+\$86 from 2024); and
6. New Equipment Fund Assessment at \$20 (+\$20 from 2024); and
7. Operating Fund Assessment at \$1,438 (+\$252 from 2024); and
8. Total 2025 Annual Assessment \$3,300 (+\$393 from 2024)

### **BACKGROUND:**

Tahoe Donner Association staff is pleased to present the 2025 Budget to the Board for consideration for adoption at Budget Workshop No. 5 or to provide further feedback and adjustments to adopt if needed.

Staff has been working on the budget since early June. The Director of Finance and Accounting developed a draft budget for each amenity and sent it to the respective managers and/or directors to work from a hybrid bottoms-up approach. These budgets followed working strategic assumptions presented to the board at the June 26, 2024 board meeting.

The August 29, 2024 Budget Workshop No. 1 focused on the Operating Fund. At that workshop, an Operating Fund contribution from the assessment was presented as \$1,483 per property owner, an increase of \$297 or 25%. Key aspects of discussion at that meeting included

- \$1.6M impact on revenue at Downhill Ski due to temporary operations and resulting impact of Downhill's annual positive net operating results to the Annual Assessment (AA) for this one year; \$268 per property increase to cover Tahoe Donner operating expenses that would otherwise benefit from Downhill Ski's performance.
- Downhill Ski aside, the 2024 Budget to the working draft 2025 Budget was only \$195,000 (2%) greater despite enormous cost and inflation pressures. For instance, an estimated property and casualty insurance renewal increase of \$213,609 / \$33 per property, a minimum wage increase of 3% - \$16 to \$16.50, and a possible increase to \$17 effective January 1, 2025 (6% increase) if the November minimum wage ballot initiative is approved by voters.
- Full-time, year-round salary, and hourly wage merit increase as budgeted at 3% tracking with inflation. A 12% increase in payroll burden was budgeted due to expected increases



in workers compensation insurance, insurance election for full-time, year-round staff, and other components of payroll liabilities.

- To offset the increase, major efforts were made in cost efficiencies and revenue adjustments without dramatically impacting member services, and holding fees flat, tracking with inflation or where well-reasoned, increasing above inflation.

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 \$1,438. This represents a \$45 decrease from Workshop No. 1 and a \$252 (21%) increase from the 2024 Budget.

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 capital plan and a 10-year capital improvement schedule with associated estimated costs and fund balances, were presented at Budget Workshop No. 2 and 3 on September 12 and 23, 2024. Factoring Board input from that meeting, updated capital funds are presented today; however, the assessment contribution to each fund did not change from Workshop No. 3.

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.

### **DISCUSSION/ANALYSIS:**

Presented to the Board for adoption is the 2025 Annual Budget, which includes the Operating, Replacement Reserve, Development, and New Equipment Fund budgets (collectively referred to as the “Capital Funds”), 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 \$16.9M, a 9% decrease on Budget 2024 and a 6% decrease to Forecast 2024. Factored into the revenues include the assumption that the Downhill Ski Lodge will be substantially complete in November 2025. Temporary operations for the 2024/25 winter season have substantially reduced revenues, most notably anticipated at winter F&B and rentals; \$2.1M less than the 2024 Budget.

Recreation Fee (Rec Fee) revenue is anticipated to generate \$1.67M in 2025. Last year the board approved moving the Rec Fee period from May 1 – April 30 to the calendar year. To complete this action, a pro-rated reduction to the Rec Fee of 20% based on the previously provided rates was approved (The usage of private amenities between May and December represents an average of



80% over the years 2018, 2019, and 2022). For 2025, a full year is accounted for in the Rec Fee pricing.

Fee Products	23/24 Rate	2024 Prorated Rate (8-month)	2024 *Non-Prorated Rec Fee	2025 Rate	\$/% Change Non-Prorated 2024 to 2025 Rate
2-Person Recreation Fee (Annual)	\$295	\$250	\$312.50	<b>\$305</b>	\$-7.50 / -2.4%
4-Person Recreation Fee (Annual)	\$460	\$410	\$512.50	<b>\$500</b>	\$-12.50 / -2.3%
Additional Card Fee – for member cards #5-8	\$165	\$140	\$175	<b>\$155</b>	\$-20 / -11.4%

Private amenity daily access rates are proposed to remain flat for a third consecutive year for Members at \$12. The Potential changes to the Guest and STR Daily Access rates are to be determined at the evening Special Board Meeting on Amenity Access Rule on October 10.

Inflation-related increases in winter daily access and season pass pricing were deemed appropriate by staff and implemented in Budget 2025 for Cross Country. This represents an approximate 2% - 6% increase in core product offerings, with larger increases to guest and public products than member products. All Downhill daily and season pass rates will remain flat for the 2023-2024 season, aside from adjustments in ski school based on product changes (no all-day lesson products). Winter operations will continue with dynamic pricing for daily access products for guests and public participants. Member daily access pricing will remain static throughout the season.

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 2025 Budget reflects total expenditures of \$27,519,631, an increase over 2024 of \$759,028 or 2.8%. Payroll expenses represent 65% 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 2025 budget reflects a 3% salary increase along with the impact of the State minimum wage increase from \$16 to either \$16.50 or \$17 per hour depending on the November ballot initiative outcome. To be competitive in the local region, entry-level positions are paid more than the minimum wage; Starbucks and the other major ski resorts are paying \$20 as a minimum wage. Incentive and retention programs remain budgeted at 40% of eligibility, with the remaining 60% potentially covered by any or part of any operating surplus generated in 2025.

Hourly labor savings were realized in 2024 with a concerted effort to control costs to recover from decreased winter revenue from the late start to winter. The 2025 Budget includes decreased hourly



payroll due largely to the temporary operations at Downhill Ski and an intense focus on operational and labor efficiencies, particularly at the F&B venues.

Property Casualty Liability insurance has remained flat. This is in part due to continued focus on risk management at the organization which results in favorable discounts, and softening of the market on some insurance lines. The combined premium covering all lines of coverage (commercial liability, property, auto, pollution, cyber, etc.) has increased by \$69,693 or 3% from 2024. This represents an \$11 increase per owner for 2025. A 14% increase in Workers Compensation coverage is also factored into the 2025 budget. This represented an \$11.02 increase per property owner, while brokerage fees remained flat from the prior year. Health insurance rates increased net 6% over the prior year.

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

The Operating Fund budget including TDA Consolidated and Department PnLs is attached as Exhibit A.

## **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.

Hughes Reserves advises delaying the upcoming 2025 reserve study (site inspection and consultation by Hughes Reserves) until the Downhill Lodge is complete. Their reasoning for this recommendation is that staff perform annual review and maintenance of the TD Reserve Study. This meets the requirements under Davis-Stirling.

On the 30-Year Cash Flow Report an annual inflation rate of 3% and a 3% interest rate on funds are factored in. Per the Replacement Reserve Fund Policy Resolution 2019-1 certain sufficiency measures, which when they dip above or below, trigger certain actions during the budget process. Coming out of Budget Workshop No. 4, the Board asked staff and the Finance Committee to review the RRF 30-Year Cash Flow funding plan and look at scenarios to meet the Reserve Replacement Fund policy sufficiency measures.

The Finance Committee and staff met and discussed this item and final review of the recommended budget on October 7. Having completed the discussion and review, several scenarios will be



presented to the board at the upcoming Workshop No. 5. At that time, the board considered accepting one of the scenarios for planning purposes.

As a reminder, the Community Association Institute released revised Reserve Study Standards in July 2023 in part due to the Champlain Towers South collapse in Surfside, Florida, over three 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 began to phase in changes in 2024 and will continue to address them 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 sufficiency measures as we complete the Downhill Ski Lodge construction and other component replacements association-wide.

Therefore, included in the proposed 2025 budget is a \$940 assessment contribution to the Replacement Reserve Fund (RRF) portion of the Annual Assessment, a \$86 or 10% 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 2025 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 2024	Budget 2025
<b>Beginning balance</b>	<b>\$17,311,271</b>	<b>\$15,679,161</b>
Assessment Funds	\$5,527,942	\$6,084,606
Operating Fund Surplus	\$400,000	\$0
Interest Income	\$519,338	\$470,375
Salvage Receipts	\$26,000	\$26,780
<b>Expenditures</b>		
Consulting	-\$16,500	-\$16,500
Income Tax	-\$17,500	-\$37,630
Overhead / Payroll Allocations	-\$417,650	-\$430,180
Capital Additions / Expenditures	-\$7,629,693	-\$16,013,381
<b>Estimated Ending Balance</b>	<b>\$15,679,161</b>	<b>\$4,481,037</b>

#### 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 the membership's services, programs, and activities. Budget Workshop No. 3 proposed a \$20 contribution per owner



from the assessment; the NEF has not been funded by the Annual Assessment 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 below this balance.” Upon further analysis, staff recommends a per property contribution of \$20 per owner which is determined by the projected fund balance at the end of 2024 and the anticipated investment in 2025.

The 2025 New Equipment Fund Investment schedule is attached as Exhibit J.

### New Equipment Fund Summary

	Forecast 2024	Budget 2025
<b>Beginning Balance</b>	<b>\$25,926</b>	<b>\$37,886</b>
Operating Surplus Applied	\$100,000	\$0
Assessment Funds	\$0	\$129,460
Interest Income	\$4,643	\$1,482
Expenditures		
Capital Additions / Expenditures	-\$92,683	-\$125,000
<b>Estimated Ending Balance</b>	<b>\$37,886</b>	<b>\$43,828</b>

### Development Fund

The 2024 Budget included 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 four years 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 past 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 2025 Budget Workshop No. 2 and 3 presentations, the board is responsibly planning and preparing for these.

Included in the proposed 2025 Budget is the 10-Year Development Fund Investment Projection (Exhibit E). Staff has identified and scheduled many projects ranging from finishing the Downhill Ski Lodge

Replacement, the planning of the Tennis and Northwoods Clubhouse project, to trails and open space projects, which over the next ten years, including inflation, is approximately \$60M in investment. Each project 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 2024	Budget 2025
<b>Beginning Balance</b>	<b>\$16,120,155</b>	<b>\$9,670,835</b>
Assessment Funds	\$5,612,091	\$5,836,575
Interest Income	\$483,605	\$322,000
Operating Surplus Transfer	\$0	\$0
Expenditures		
Income Tax Expense	-\$38,688	-\$26,000
Overhead / Payroll	-\$226,000	-\$264,844
Capital Additions / Expenditures	-\$12,280,327	-\$14,985,025
<b>Estimated Ending Balance</b>	<b>\$9,670,835</b>	<b>\$553,541</b>

### OUTREACH:

As with the past few years, staff set a goal to inform the members of the 2025 budget process, key drivers, and assumptions. Themes of the outreach include transparency, understandable and easy-to-find information, timely and consistent communication, and straightforward ways to provide feedback.

Specific outreach initiatives included:

- **Open Budget Workshops:** 8/29, 9/12, 9/23, 10/3, 10/10
- **Five Dedicated Member Emails:** Sent 2-3 days before each meeting with the objectives of each meeting, ways to participate, and links to supporting documents
- **Weekly Tuesday Emails:** 7 weeks of weekly email
- **2025 Budget Webpage:** Created a one-stop webpage for all budget information, meeting recordings, and presentations
- **Feedback Form:** Directed feedback through a form and linked in 2025 Budget webpage and dedicated budget emails
- **Budget Timeline Graphic:** Featured in September and October *TD News* with meeting dates

### FISCAL IMPACT:

The proposed 2025 Annual Assessment is \$3,300, a \$393 (13.5%) increase over 2024.

### RECOMMENDATION:

**By Motion:** The Board of Directors approves:

1. Recreation Fees: 2-Person at \$305 and 4+Person at \$500
2. Extra Photo ID Card Fee: \$155 per card



**By Motion:** The Board of Directors adopts:

3. 2025 Annual Budget Exhibits A - J; and
4. Development Fund Assessment at \$902 (+\$35 from 2024); and
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8. Total 2025 Annual Assessment \$3,300 (+\$393 from 2024)

Alternative(s) the Board may consider:

The 2024 Budget expires on December 31, 2024. 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

#### **ATTACHMENTS:**

Exhibit A: 2025 Operating Fund Budget Summary

Exhibit B: 20-Year Capital Plan

Exhibit C: 10-Year Capital Improvement Plan

Exhibit D: 2025 Capital Improvement Projects

Exhibit E: 10-Year Development Fund Investments Projection

Exhibit F: Reserve Study 30-Year Cash Flow (TBD)

Exhibit G: Reserve Study AICPA by Location Report

Exhibit H: 2025 Replacement Reserve Fund Budget

Exhibit I: Reserve Study – 30-Year Expenditure Report

Exhibit J: 2025 New Equipment Budget

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Prepared By: Justin Malley, Director of Finance and Accounting

Reviewed By: Annie Rosenfeld, General Manager

Board of Directors Meeting: October 10, 2024