

Finance Committee October 29, 2024

Committee members attending

Eugene Kaulius

Rick Brown

Kurt Woetzel

Beth Speigel

Doug Dewar

Jill Townsend

Michael Hunter

Jim Funk

Eugene opened the committee by thanking everyone attending. Jim Funk provided the minutes from the previous finance committee. The minutes were approved as provided

Eugene discussed the agenda.

- Update presentation on reserve requirements
- Discussion proposed budget
- Recommendation on budget
- Open discussion

Michael Hunter began the discussion with the September financials.

- GRCA has a strong cash position
- Reserve recommendations
- Operating cash balance of \$348,000 is a little low but in a good place
- Capital accounts in a strong position with 76 sales and \$720,000 by the end of the year.
- Accounts receivable acceptable.
- Operating deficit is due to utilities and maintenance issues.
- Payroll is slightly over budget due to contract labor.
- Insurance renewals some positive 2024 renewals. Example Golf Cottages Arden insurance out of California good rating, with higher coverage lower premiums. Property and liability insurance – Director and Officer liability insurance the same as last year. Driving the Golf Cottages reduction the significant loss experience is lower after high claims 3 years ago.

Reserve fund is good with the Capital fund strong. Reserve fund balance is \$ 350,000 which is 20% of timeline fully funded. The management recommendation is to move \$ 200,000 from capital to the Reserve fund and invest. This would allow for no increase in the reserve fund assessment but continue the Finance Committee recommendation to increase the timeline funding. Additionally, this recommendation would create a rainy day fund the Finance Committee has recommended.

Committee members asked if this transfer would be allowed per the loan for the Estate Club. The loan condition is the expense to revenue ratio, which we meet. The reserve fund balance is not a condition to be met. The loan requirement to service the loan I is under \$500,000. The enhancement fee revenue for 2024 is \$720,000 plus the member annual assessment of \$ 260,000. Each year management maintains \$ 300,000 for the upcoming year within the capital fund to ensure should a real estate sales slump occur the loan requirements are met.

Short discussion on possibly moving funds to the operating account rather than increasing the monthly assessment. The enhancement fee when passed in 2010 has restrictions on use specifically the use must benefit improvements (touch the land) not fund the operational budgets. Jill Townsend asked why there was a transfer of \$100,000 from the capital fund in 2024 to the operating fund. It was explained that during construction of the Estate Club the operating fund transferred money to the capital to ensure the project could be completed. The \$100,000 transfer was to finish off paying back the interfund loan.

Michael then provided the summary of the proposed assessment increase

The operating fund increase of \$ 10 was discussed. The increase includes a 3% average increase in payroll and increases in the utilities and other fund accounts. Committee members state the policy should be the operating expense equal operating fund revenues.

The operating cash fund balance was discussed.

The auditor recommended a 3-month reserve for the operating cash fund, but management believes that is very conservative and a more realistic approach would be a 1.2-month fund. The \$5 increase for the operating fund balance would move the cash fund from the current .8 to 1.2-month balance. The average expenditure in a month is around \$370,000. The negatives to a short fall in the operating balance would be not being able to pay bills within the month. The proposed increase in the fund would replenish the operating fund to address the inflationary increase of goods that have created the shortfall.

It was noted that while monthly inflation is running at this time at 2.4%, Scottsdale just announced a 7% increase in water expense for 2025.

Jim Funk talked about the stable labor force that Gainey enjoys at this time. Jim agrees the operating increase of average 3% is tight and should labor pressures increase in the coming year may be underbudgeted, but with the current information seems appropriate.

The committee asked why reserves and other funds are not earning higher interest rates. Michael agreed and noted the current reserve interest earned sheet is not correct. Michael will put together a treasury management plan and provide it to the Finance Committee members.

Short discussion on the nonresidential portion of assessments versus residential as the nonresidential are not responsible nor have rights to the Estate Club operations or the Security gate operations resulting the nonresidential do not contribute to those funds. The Finance Committee encouraged Michael to provide Satellite communities guidance on cash management.

Overview budget discussion

- The operating budget increase is due to 3% Salary increases, inflationary increases, contracts such as Arbor Care increase of 5%.
- \$3.46 per member per month increase due to the elimination of court fees and change in the guest policies.
- Commercial pays their portion of the budget
- If the transfer of the \$ 200,000 to Reserve fund is approved the recommended \$5 per member per month increase is eliminated.

- The discussion it would be a poor practice to move reserve fees to operating.
- Satellite communities do not have restrictions for enhancement fee as GRCA does and as such could move reserve fees to lower increases in the monthly operating assessment. The Finance Committee does not recommend this practice.

Finance Committee recommendation discussion.

Removing the Reserve \$5 fund increase would result in a \$18.00 5.6% increase

The \$3.46 increase is related to new benefits for members.

The operating budget \$10.00 -3% average increase has no cushion and could result in overage in 2025

Eugene asked for final comments around the table.

- The recommendation should be round numbers.
- \$16.00 would be under 5%
- Inflation would be 5% inflation – minimum \$16
- \$17 was the recommendation made up of the following.
- A \$10 operating fund increase, the \$3.5 revenue loss +3.5 loss to operating fund from 2024 equals \$17 total increase
- Prices are increasing, values are increasing

Hot topic – are we being transparent -Have we made enough progress

The website and the access to the Yardi portal have improved the ability for members to receive pertinent information they want. This information was available in the past by request from management but now is available on an ongoing basis.

The committee agreed most homeowners want to enjoy their home, want the community to be maintained, and are good with reasonably explained assessment increase, but do not necessarily want to be involved.

Website and newsletter is where you grow transparency. While members have been informed the Association must continue to remind so they know it is available.

