

# Budget Status and Options to Address Rescission of Previous Board Action

Scott Buchanan  
Board Treasurer

# Current Cash Flow Position

- Running slightly ahead in revenue due to easements and other compensation, but these are non-recurring items
- Personnel and Repair and Maintenance (non-reserve) expense are running over by around 10%
- Insurance and Utilities expense are running lower, and are sufficient to offset the overages in operating budget
- Delinquencies and deficiencies are in normal ranges
- On track to be 100K net positive against budget, which would then offset previous years' total debit against equity – but again that is the result of one-time revenue this year

# Current Balance Sheet Position

- Current assets have a book value of \$6.1M, net of depreciation
- Outside of vehicles, most other assets of value have been either fully or nearly fully-depreciated on our books
- Current liabilities are valued at \$1.1M, which includes AP and accrued wages and taxes payable
- Current total book equity is valued at \$5M, but unreserved “owner’s” equity is \$1.5M
- So owner’s equity stands at roughly 14%, excluding the capital improvement reserved owner’s equity – well within the best practice target range of 10-20%
- Generally, today’s position is strong

# What is new and requires long-term attention

- The Board since 2017 has funded reserve contributions at a level equal to or higher than the last reserve study recommended to meet that demand
- Previous Boards have delivered operational efficiencies and balancing of operating budget priorities to reduce the need for additional revenue
- We now have an operating budget that has cut as much as possible without reducing key services in the opinion of previous Boards. Any further material operational cuts will likely require decisions about services that also must be reduced
- The new reserve study is a fresh and independent view on the current condition of the property and how much we will need to spend over the next 10-20 years

# Some common myths about our financials

- “We are underfunded” – The Association has met or exceeded the targets for reserve contributions, grown its liquid assets, and is within the equity targets. This issue in the coming years is one of potential cash flow, not assets. We could be “underfunded” in the future if we don’t take thoughtful next steps
- “We are not investing in our infrastructure” – In fact, the Association invested at a higher level than the last reserve study asked and accelerated many items to invest faster
- “The Association knew this was an issue” – The Association only knows there is a need for more resources based upon third-party analysis and data at hand. That is why we do reserve studies regularly and the new data gives us new direction

# Issue that needs addressing: Liquidity Position

- The 2020 Reserve study suggests we need to accumulate \$2.3M in cash/liquid assets over the next 5 years to avoid potential cash flow risk
- This requires additional cash/liquid asset growth of reserve contributions or one-time infusions with an average net increase in contributions of 11.6% each year over the next 5 years
- Translated this means an average of 5.24% yearly of new total revenue from owners (this excludes any additional operating budget spend), asset shifting, or other creative approaches

# Multi-Year View of Owner Assessments Alone

Year	YOY Reserve Contribution Increase Rec	YOY Condo Fee Increase Rec Suggests with Inflation	Cumulative Impact on each \$100 of Current Condo Fee
2020			\$100.00
2021	10.00%	4.11%	\$104.11
2022	15.00%	5.94%	\$110.05
2023	15.00%	6.36%	\$116.41
2024	10.00%	5.14%	\$121.56
2025	8.00%	4.64%	\$126.20
2026	8.00%	4.79%	\$130.99
2027	2.90%	2.89%	\$133.88
2028	2.90%	2.92%	\$136.80
2029	2.90%	2.95%	\$139.74

# The Option Mix (rough feasibility and value)

- Increase the condo monthly assessment (+++)
- Cut annual operating expense (+)
- Increase or implement user fees for some services (+)
- Convert hard assets to liquid assets (sell property, vehicles, equipment, etc.) (++)
- Reduce or leverage “owner’s equity” (+)
- Take on debt (mortgage property, line of credit, etc.) (++)
- Charge a special assessment (++)
- Accept some level of additional financial risk (+)



# Perspective on the Options

- Action is required because delaying decisions is in fact choosing the option of accepting material risk the financial position of the Association. Action is needed to fill a 148K gap this year
- The long-term goal can be achieved through a mix of one, some, or all the options
- Choices will have offsetting trade offs and risks
- The liquidity position need is a growing one over time, so a single or blended solution will also have to be able to scale over time
- Any separate choices to increase spending in the operating budget will have to also be additionally offset by additional draws on revenue growth from these options

# Current action needed to address recent Board decisions

- This upcoming year's budget is now 148K underfunded against the reserve investment recommendation given recent Board action
- This also means that the next fiscal year we will now require an additional ~445K in annual contributions, since the disposition transaction would have increased the reserve balance by the delta of 148K and the final transaction receipts. Had the transaction occurred, the amount we need to come up in additional liquidity in FY22-23 would have been roughly 345K. This future need can be addressed next budget, but more will have to be addressed than previously planned

# Discussion and Questions