

KIAWAH ISLAND
COMMUNITY
ASSOCIATION

NOV. 3, 2020

2021 Budget

Dear Member,

The Kiawah Island Community Association (KICA) Board of Directors approved the 2021 Budget on Nov. 2, 2020.

I'm pleased to report that **in 2021 there will be no increase to member assessments**. We're able to accomplish this because we project total revenue to be up by \$85K, and operating expenses down \$145K, compared to our 2020 budget.

This is the 9th budget I've presented at KICA, and I don't recall a prior year where there's so little new ground to plow in terms of different projects, new initiatives, etc. Instead we're focused on very familiar themes and continued progress on previously established goals and objectives. Those include:

1. Attracting and retaining high quality employees and enhancing service delivery
2. Completing the multi-year overhaul of our technology platform
3. Drainage and Water Management
4. Preparing for the PGA Championship

Now that we are well into the 4th quarter of 2020, we can confidently project that we'll end the year with surpluses in both our operating and reserve budgets.



Our reserve budget has benefited from an unexpected spike in real estate sales, which has driven CTR (real estate transfer fee) revenue to levels not seen in many years. A reserve fund, by its very definition, however, is designed to mitigate volatility in year-to-year expenses. As an example, next year's Reserve Budget calls for expenses to exceed revenue by almost \$1 million. Because we have a carefully managed reserve fund, we can withstand spending more than we take in when it's necessary.

As to the operating surplus, the Finance Committee and board will discuss options in the coming months on how to deal with these additional resources. Some have suggested additional reserves be established for storms, while others have advocated for capital improvements to the bike trails and other community assets. Others have suggested we sit on this surplus in the short-term until we have a better sense of the 2021 impact of COVID on our operations. All that is to say that no decisions have been made at this point.

Finally, a community member attending the Finance Committee meeting made a very good suggestion that we more regularly publish a document that provides a high level overview of KICA's finances. "KICA Finance 101" was developed several years ago, but I've made a few edits and have added it to the end of this communication as a reference.

I wish you all a good health, and hope to see you either virtually or socially distanced in the near future.

Sincerely,

Jimmy Bailey, Jr.
Chief Operating Officer



KICA Finance 101

The following is intended to provide a high level overview of KICA's finances. It skips discussion of several smaller income/outgo items that are immaterial in total and add complexity to this overview.

What We Do

KICA does five basic things that are core to its mission, and provides the administrative support for these functions:

Security & Livability

- Security: Main gate and V-gate access, routine patrol, commercial access administration, shuttle services
- Livability: Covenant Enforcement, contractor oversight, encroachment permitting, and ARB liaison

Land & Lakes Maintenance

- Mowing, edging, weeding, blowing, tree care, flowers/greenhouse operations, straw/mulch, fertilization, etc.
- Lakes water quality management, wildlife management

Recreation & Amenities

- Operations of the Sandcastle, Rhett's Bluff, Cinder Creek, Eagle Point, and club/community group meetings and events

General Maintenance

- Minor repairs to roads, bridges, paths, boardwalks, docks, buildings, mailboxes, signs, etc.



Major Repairs & Replacement

- Major repair or replacement of roads, bridges, drainage systems, other infrastructure, buildings, etc.

Generally, these responsibilities begin at the bridge over the Kiawah River (though there are some exceptions with respect to infrastructure between the bridge and the main security gate). Therefore, Cassique is not part of KICA but Mingo Point and everything beyond is.

How KICA Budgets

KICA operates with two separate budgets. Our **Operating Budget** covers administration, security & livability, routine maintenance, recreation, and amenity operations. Our **Reserve Budget** covers major infrastructure repairs and replacements.

The basic difference is that the Operating Budget covers expenditures that are routine and predictable, with costs that are very similar from year to year, while our Reserve Budget covers expenditures for existing infrastructure that last many years. These expenditures are not predictable in any one year (i.e. we all know roofs need to be replaced at some point, but the precise year is hard to predict).

How These Two Budgets are Funded

Our Operating Budget gets its 82% of its funding from the annual assessment charged to homeowners, the Kiawah Island Golf Resort and the developer. This fee provides a highly predictable level of income to cover highly predictable expenses and links current year operating expenses with current year fees.



Rather than use current year income to fund the Reserve Budget, KICA has created a Major Repairs and Replacements (MR&R) reserve fund. In any given year, MR&R expenditures are funded by drawing from this reserve fund. The reserve is built in three ways:

- Approximately 40% (based on average real estate trends) of funding is a 0.5% transfer fee on all real estate sales.
- This is supplemented by a reserve assessment (\$325/household with proportionate share to the resort and the developer), which was instituted in 2013 after the slowdown in real estate sales made it clear that the transfer fees would not be sufficient to meet KICA's projected MR&R needs. This provides another 40% of the funding.
- In 2016 we added an allocation of commercial access fees to further bolster the reserve fund, and allocate costs to the larger trucks that we believe add significantly to costs.

This MR&R reserve process exists for two key reasons. First, items covered in this budget are not predictable in any one year, so spending might be more or less than projected in the current budget. Second, the items covered in this budget last for many years and it is common practice among homeowners associations to charge current owners a fee today that will be set aside to pay for repairs in the future. This reserve process ensures we have sufficient funds when needed for major repairs and better allocates the costs of these expenditures to those that benefit from the use of these assets.

Although it is difficult to predict any one year, we believe multi-year projections are quite accurate. KICA employs the services of an outside Reserve Specialist, who annually works with us to project major expenses over a 29-year time horizon. Each year, thousands of components are updated in the study, which is essentially a cash flow model, and the updates incorporate expected useful life of each component, expected useful life remaining, expected replacement cost, and inflation. The model also includes assumptions with respect to reserve funding.



Operating Reserves and Funded Depreciation

While it is necessary to build large balances in the MR&R Reserve Fund, KICA strives to maintain only modest unrestricted cash reserves as a contingency in its operating fund. The target for this contingency is \$500k, though there are times cash is set aside for a known future expense.

KICA also funds depreciation on certain assets such as vehicles, furniture, fixtures, and equipment with depreciable lives of 7 years or less. Funds from the annual assessment are set aside each year in order to spread the cost of replacement out over the useful life of each asset, and to have cash on hand when replacement is necessary. It also spreads the cost of assets among those who benefit from them. It's important to note that we do NOT fund depreciation on buildings.

Special Assessments

KICA's MR&R Reserve Fund is for the replacement of existing infrastructure, and cash reserves are not maintained for new projects or to build any new infrastructure. When new infrastructure is needed, it is funded from operations (if possible) or members must approve special assessments. In 2020, members approved a special assessment for new drainage infrastructure with payments due over five years (ending in 2024).





KIAWAH ISLAND
COMMUNITY
ASSOCIATION

2021 Budget

| | Operating Funds | | | | | | 2021 Combined Operating Budget | 2020 Operating Budget | 2021 Reserve Budget | 2021 Consolidated Budget |
|---|---------------------|--------------------|------------------|--------------------|-------------------|--------------------|-----------------------------------|--------------------------|------------------------|-----------------------------|
| | General | Recreation | V-Gate | Ocean Park | Preserve | Property | | | | |
| Revenues | | | | | | | | | | |
| Assessments | \$9,160,373 | \$769,068 | \$210,742 | \$110,046 | \$176,421 | | \$10,426,650 | \$10,355,074 | \$1,525,763 | \$11,952,413 |
| Investment Income | \$44,000 | \$5,000 | \$6,000 | | | \$60,000 | \$115,000 | \$115,433 | \$135,000 | \$250,000 |
| Contribution to Reserves | \$0 | | | | | | \$0 | \$0 | \$1,500,000 | \$1,500,000 |
| Commercial Access Fees | \$1,140,000 | | | | | | \$1,140,000 | \$1,115,758 | \$500,000 | \$1,640,000 |
| User Fees | \$0 | \$137,150 | | | | | \$137,150 | \$174,100 | \$0 | \$137,150 |
| Recreation Center Initiation Fees | \$0 | \$61,504 | | | | | \$61,504 | \$61,504 | \$0 | \$61,504 |
| Comcast Revenue | \$265,000 | | | | | | \$265,000 | \$217,767 | \$0 | \$265,000 |
| Other Income | \$308,262 | \$301,157 | | | | | \$609,419 | \$630,205 | \$0 | \$609,419 |
| Total Revenues | \$10,917,635 | \$1,273,879 | \$216,742 | \$110,046 | \$176,421 | \$60,000 | \$12,754,723 | \$12,669,841 | \$3,660,763 | \$16,415,486 |
| Expenses | | | | | | | | | | |
| Payroll Expenses | \$6,273,063 | \$676,330 | \$160,000 | \$65,350 | | | \$7,174,743 | \$6,842,410 | \$0 | \$7,174,743 |
| Building/Equipment R/M | \$275,835 | \$301,109 | \$18,400 | | | | \$595,344 | \$687,762 | \$0 | \$595,344 |
| Common Area Expenses | \$1,407,967 | \$529,953 | \$21,989 | \$204,400 | \$198,195 | | \$2,362,504 | \$2,360,116 | \$0 | \$2,362,504 |
| Communications & Technology | \$702,695 | \$42,688 | \$3,764 | | | | \$749,147 | \$1,003,896 | \$0 | \$749,147 |
| Professional & Other Services | \$551,500 | \$120,000 | \$2,800 | | | | \$674,300 | \$679,668 | \$0 | \$674,300 |
| Administrative Expense | \$550,730 | \$73,988 | \$900 | | | | \$625,618 | \$707,172 | \$0 | \$625,618 |
| Transfer to MRR for Drainage Study & Project Permitting | \$0 | | | | | | \$0 | \$0 | \$0 | \$0 |
| Capital Projects -MRR Preserve/LCI | | | | | | | \$0 | \$0 | \$4,652,100 | \$4,652,100 |
| Depreciation Exp | | | | | | \$300,000 | \$300,000 | \$305,000 | \$0 | \$300,000 |
| Interest Expense | | | | | | \$10,140 | \$10,140 | \$50,838 | \$0 | \$10,140 |
| Gain/Loss on Sale of Assets/Investments | | | | | | | \$0 | \$0 | \$0 | \$0 |
| Total Expenses | \$9,761,790 | \$1,744,068 | \$207,853 | \$269,750 | \$198,195 | \$310,140 | \$12,491,796 | \$12,636,862 | \$4,652,100 | \$17,143,896 |
| NET SURPLUS (DEFICIT) | \$1,155,845 | (\$470,189) | \$8,889 | (\$159,704) | (\$21,774) | (\$250,140) | \$262,927 | \$32,979 | (\$991,337) | (\$728,410) |
| Capital Equip Purchases - new and budgeted replacements | (\$90,350) | (\$38,200) | | | | | (\$128,550) | (\$183,000) | | |
| Current Mortgage Payable Cash Requirement | | | | | | | (\$102,695) | (\$58,682) | | |
| Depreciation on Buildings | | | | | | | \$66,000 | \$66,838 | | |
| Funded Depreciation Applied | | 29,600 | | | | | \$29,600 | \$142,667 | | |
| CASH SURPLUS (DEFICIT) To be funded by 2021 Budget | \$1,065,495 | (\$508,389) | \$8,889 | (\$159,704) | (\$21,774) | (\$286,835) | \$97,682 | \$802 | | |