

KIAWAH ISLAND  
**COMMUNITY**  
ASSOCIATION

## FINANCE COMMITTEE

# Meeting Minutes

September 28, 2022 at 10:00 a.m.

## Bobcat Hall & Virtual

### Members Present:

In Person: Alex Fernandez, Paul Hennessy

Virtual: Michael Petrecca, Bran Petranovic, Jim DiLella, Debbie Diddle, Paul Hough

Guests: Brad McIlvain, Board Secretary

Not Present: Jeff Porter

### Staff Present:

Shannon White - COO, Dale Schoon - Director of Finance, Tony Elder - Director of Operations, Sarah Bond – Director of HR, Ellen Festa – Executive Assistant

## Meeting Minutes

Alex F. called the meeting to order. Motion requested to approve July 27, 2022 minutes. So moved by Jim DiLella, seconded by Debbie Diddle. Minutes passed unanimously.

### Investment Advisor-RFP Results

RFP letters were sent out to 9 firms. 4 bids were received:

- Cook Street (subsidiary of Morgan Stanley)
- Gries
- Moneta
- Vanguard

Sub-committee (Alex F., Bran P., Michael P. and Dale S.) scaled it down to 3 candidates (Cook Street, Moneta and Vanguard). Presentations were heard from the 3 candidates. After consideration of all the presentations, the sub-committee recommended we select Cook Street as the Investment Manager.



Reasons for selecting Cook Street included:

- Investment Strategy
- Educational Capability & Opportunities available to KICA team
- Operational Functionality
- Fee structure
- Quality of their presentation

Three (3) members of the Finance Committee and one (1) Board member were identified as clients of Morgan Stanley, but not Cook Street. It was determined that this presented no Conflict of Interest since the relationship is far removed.

- Paul Hennessy asked if the Board member who is a Morgan Stanley client would recuse themselves and if so, does it impact the Board quorum? It does not as the relationship is far removed and it's only one Board member.
- Paul Hennessey - what is the term of the deal with Cook Street?
  - No set term, will follow terms defined in the FCM (3-5 yrs.)
  - We can cancel at any time, fees remain the same for the duration.
- Paul Hennessy asked if the quality of reporting by Cook Street was a deciding factor. Alex indicated it was considered.
- Paul Hennessey and Alex F. both expressed their thanks to the sub-committee for their efforts and diligence in their work on the RFP process.

It is the unanimous recommendation of the Finance Committee, that this go to the Board at the October 3, 2022 Board of Directors meeting to approve Cook Street as KICA's new Investment Manager, with a start date of January 1, 2023 or earlier.

Dale Schoon, Director of Finance reviewed the "KICA - Where is Our Money" presentation.

- KICA has reviewed all the Funded Depreciation items which results in a reduction of approx. \$250,000.
- Bran asked why there's so much money in CDs? Should we move more to T-Bills with higher interest rates?
  - Dale thought it was due to penalties for early cash out of existing investments but would follow-up with Moneta on this and inform the Committee of findings.
- Discussion about breakdown of Operating, MR&R, Funded Depreciation, monetary assets etc.
- Paul Hennessey suggested we complete the story for this. 100% of our 'Total Cash and Investments' (top portion of schedule) needs to be reconciled to a specific named reserve account or otherwise shown as 'Other Unallocated Surplus' (bottom portion of schedule). Inclusion of Designated Fund Balance (which includes physical operating assets) is not relevant to this reconciliation disclosure.



## Reviewed 2023 Budget Guidelines and Assumptions

Shuttle service - Security leadership recommends elimination of this service.

- Offered initially as member service – day excursions etc.
- Today 60% of service is to the airport – difficult to schedule.
- Currently cannot accommodate 25% of rides primarily due to staffing.
- Not cost effective.
- It was never intended to be profitable, but it's not covering costs at this time.

### Suggestions:

- Look at # of members who are using the service and what impact would be if discontinued.
- Concurrently look at restructuring pricing.
- Issue to evaluate is how we deploy our security personnel.
- Can we negotiate a deal with outside providers to outsource and offer discount to members?
- Vehicles will also need to be replaced in the future. Mechanic is already recommending replacement of the Mercedes Sprinter. Should we invest these \$\$\$.

Paul Hough asked why this is Finance Committee and not the purview of Amenities Task Force. Cart before horse - is this a core amenity for the members and is there interest. Look at this first and then back into the numbers. Request Amenities Task Force to review - time sensitive for the budget process.

Commercial Access Fees - Recommendations on increases for Commercial Access Fees on 4-wheel decals and daily passes.

- Paul Hennessey asked who doesn't pay
  - Post Office, UPS, FedEx
  - Currently looking at Amazon
- Why are we not increasing rates for Fleet?
  - Fleet vehicles cause the most damage to the roads.
  - We were initially higher than everyone when we increased rates in 2017
  - Will revisit and look at marginal increase
- Discussion about flat rate and per vehicle charge.
- Finance Committee has requested Staff to review again for rate increases for other pass/decals types.

### Bike Tags

- Haven't increased decal fees in 10 yrs. – currently \$35
- Revenue is to be allocated to MR&R
- Recommend increase to \$40- \$45



- 3,668 Bike tags purchased so far in 2022 – estimated revenue \$141K
  - Resort is biggest purchaser of bike decals
- Bike decals are available to members for ID purposes at no charge – let’s publicize this.
- E-Bikes are still prohibited.
- Leisure trail widening project was a cost of \$600K. Projected cost of additional repairs is in the area of \$500K. Believe that an increase in fees is feasible to maintain bike trails.
- Finance Committee asks for increase to be included in Budget.

#### Access Fees Allocation

- Discussion and agreement that 15% of each of the following revenue streams that are currently attributed or will be attributed to MR&R in 2023 be allocated to operating funds to administer these programs:
  - Contributions to Reserves (CTR)
  - Commercial access fees
  - Bike fees
  - Cassique gate access fees

#### V-Gate Expense Review

- Charging \$100 segment assessment – passed by BOD in 1983 and further defined in 1993. Any change would need to be approved by the Board.
- Can only charge V-Gate fund for 4 things:
  - Building Repair/Maintenance
  - Utilities
  - Property Insurance
  - Security Labor
- There will be some increases in V-Gate allocation for salaries.
- Fund Balance is \$445K. Building replacement value is estimated at \$153K.
  - Approach has been to keep money available to replace the building plus one year of operating expenses. It is insured but no Flood Ins.
  - Question is how much we hold in reserve? Building and 1 year of expenses equals \$370K.
  - There was a suggestion not to reserve the estimated \$153K to replace the building, but we reserve for 1 yr. of operating expense. Consider utilizing excess fund balance.
- Suggestion made to give a 1-year holiday for V-gate assessment. Majority of the committee doesn’t believe a 1-year holiday should be given, but rather a graduated reduction in the assessment once we determine exactly what V-Gate needs to operate.
- Two distinct issues:
  - How we’re going to fund the V-gate going forward. (Break even on operating and MR&R basis)
  - What do we do with the surplus?
    - Possible hurricane reserve fund for V-Gate.
- Paul Hough suggested we look at heaters for V-Gate staff especially during colder months.



Payroll – Sarah Bond reviewed 2023 Payroll increases

- Reviewed changes implemented mid-year which equated to \$471K (7%) 2022 budget impact
- 2023 Payroll impact is \$862K (12% increase over 2022)
- Have not received 2023 Benefit renewal information yet
  - What KICA absorbed in this area needs to be discussed. Last year, KICA absorbed full increase.
- Alex asked for detail on Director increases instead of range of 7-8%
- Change wording of ‘buffer’ to projected or contingency
- These initiatives currently keep us competitive with other island entities.

**Member Comments:**

- Member commented that today’s Zoom session was not clear and hard to hear, possibly due to approaching hurricane. Please make sure an agenda is posted ahead of time.
- Member commented that Where is Our Money summary is a very good tool. Does the cash notated to be eliminated (\$213K) in the Depreciation Fund go back to the general operating account? Dale confirmed that is correct.
- Member commented on Property/Equipment net line – is this hard assets or cash set aside for property/equipment we may purchase? Assets net of depreciation. Why are they on cash summary? Auditors have it presented this way – something that Dale needs to get clarification from Auditors.
- Member comment and discussion on how cash reserves reconcile to reserve study. Reserve study are depreciable assets not included in infrastructure of the Association. Buildings are depreciated but not in funded depreciation. Depreciation Fund is operating, MR&R is strictly infrastructure.
- Member question on when Reserve Study is done – end of year or beginning of next year. Will we use surplus CTR funds to reduce assessment increase? According to Covenants that money must go into reserves.

Paul Hennessy commented that some big items were not included in the Budget discussion today. Alex stated we’ve got several additional budget meetings and reviews planned. Today’s session was just a start so that management can have some guidelines to prepare budget - process is just beginning. Short discussion on projected revenue from assessments. There are a number of homes being built, but not a large number. We’ll see a bigger increase when the Cape closes.

With no further business, Alex requested a motion to adjourn – so moved by Paul Hennessy, seconded by Michael Petrecca – meeting adjourned at 12:28 pm.

**Upcoming Meeting Dates:** Wednesday, October 26, 2022 @ 10 am

*Respectfully submitted,*

*Ellen Festa, Executive Assistant*

