

KIAWAH ISLAND
COMMUNITY
ASSOCIATION

FINANCE COMMITTEE

Meeting Minutes

March 29, 2023 at 10 a.m.

Bobcat Hall & Virtual

Members Present:

In Person: Lisa Mascolo – Chair of FC, Paul Hennessy, Debbie Diddle, Jim DiLella, Paul Hough, Michael Petrecca

Virtual: Bran Petranovic, Jeff Porter

Guests: Ian McGeady, President – Association Reserves

Staff Present:

Shannon White - COO, Dale Schoon - Director of Finance, Tony Elder - Director of Operations, Chan Butler – Staff Assistant

Meeting Minutes

Lisa called the meeting to order at 10:06. Discussion and agreement to move the monthly Finance Committee meetings to Thursdays at 9 a.m.

Lisa said the only thing on the agenda today is the Reserve study. We will approve minutes and discuss other business at the next regular meeting.

Ian McGeady presented the 2022 Draft Reserve Study. (Refer to the Reserve Study document). FC and member questions will be documented and addressed here in the minutes.



Finance Committee Comments/Questions:

Paul Hennessy: Is this report the Reserve Study for 2024? When can we expect to see the final report for 2024?

- Most beneficial to have a lead time of 6 months for the following year, so this would be for 2024 for budget planning. Should be close to a final shortly, but will be adjusted during the course of the year as we take into account any 2023 projects and align with the budget process - ideally review in September and make adjustments based on project status. Don't expect the recommendation to change much.
- Shannon commented that Tony Elder will meet with Ian in September so that the Board can include the info in Budget assumptions as they begin budget process in October.

Paul Hough: Is the \$1.5M contribution rate generally 1/3 funded by members and 2/3 from other elements?

- Shannon stated the ratio changed when you moved 85% of the vehicle transfer fees into reserve. For 2023 it's budgeted at \$2.1M.
- Paul Hough said if sales etc. normalize, that's more pressure on the operating budget. Need to look at this long term on how to manage this going forward to lessen stress on operating.

Paul Hennessy: What was net contribution to Reserve in 2022?

- Net contribution was negative due to 2022 budgeted/actual net loss.

Is the \$4.6M aggregate annual rate of deterioration of our infrastructure in dollars?

- Ian said short answer is yes. His recommendation is to keep up with the deterioration, not as concerned with where or how it's funded. We don't need to jump to the \$4.6M immediately. Annual deterioration is different than the 59% funded in Reserve.

Discussion about being fully funded, risk of special assessment, fundamentally a risk decision based on where we want to be in terms of funding level.

Bran P. clarified that the \$4.6M would get us to be 50% funded over 30 yrs. If we wanted to be fully funded, that number would need to be increased.

- Ian mentioned the U-Plan It tool that's available to us where you can change interest rates, contribution levels, funded balance figures etc. can be plugged in to look at different scenarios for planning purposes.

Kevin Donlon: Are these numbers based on projected replacement costs of the assets? Inflation would be built into any future replacement costs – but it's an educated guess and estimate what things will look like in the future.



- Ian stated that after working with KICA Engineering, this study dropped the life of our roads down to 15 yrs. Kiawah is normal in terms of industry standards (roads for ex) but there is an aesthetic standards component in play. If all other reserve contributions went away, break down the \$4.6M and divide by # of homes (approx. 4,000) x 12 months - monthly contribution comes to about \$95. This might not be an issue given the demographics of the island.

Discussion about assumptions, decision about what inflation rate to use is for the Board to make, requires judgement, needs to be risk loaded. Is 5% a reasonable assumption? 30 yr. break even rate is 2.6% - 5% is conservative. Discussion about what the transfer fees and vehicle fees are going to look like going forward. Huge benefit that you have over 4,000 units that can contribute to reserves.

Paul Hennessy – 4 or 5 critical assumptions that need to be articulated 1) Inflation 2) CTR 3) Investments 4) rate of physical deterioration 5) risk assessment. Risk we’re taking is for homeowners in the future, we don’t want to have homeowners in 2034 look back and think – “what were these guys thinking?”

- Ian commented to keep in mind that this reserve study will change over time as you look at projects, infrastructure requirements in the future – hard to predict, but this will be a changing document.
- Shannon added that as new projects are done, they are added into the reserve study to be accounted for over the next 30 yrs.
- Ian commented that with their recommended funding amount, KICA could absorb some unexpected projects if that should happen. Funded % level may go down a little, but it could be handled with current plan and without a special assessment if need be.

Paul Hough – revisit the Reserve Policy and get it updated and present it along with the study to the Board.

Bran P. asked if there’s anything of significance that Ian wants to draw our attention to since the last study.

- Ian said largest impact to big picture was the roads and reducing useful life down to 15.
- Shannon commented that we will be looking at all the vehicular bridges and doing structural inspections including underwater inspections that will then be provided to Ian so he can make adjustments.

Debbie D. said we should communicate that this assumes that everything on this list will live out its useful life – which is separate from insurance. Point also needs to be made that deterioration is different from depreciation.



Discussion about philosophical view on whether assets that are used primarily by one area should be funded by them, or do we have a shared approach. This methodology could open up a can of worms.

Paul Hennessy - It would be helpful when we issue this to have a front page that lists the key drivers and assumptions that were made and how it differs from the last one.

Michael P. asked if the \$4.6M is the present value in today's dollars to fund the \$40M over the next 30 yrs. Ian said that number doesn't represent that.

Ian offered to go over the Reserve Study to the community at next March Annual meeting if so desired.

Ian left the meeting at this time:

Discussion about timing of when Reserve Study will go to the Board. May/June timeframe.

Shannon suggested small video snippets with some Q& A to Ian from community – better response with short videos.

Paul Hennessy: Ian provides an invaluable service – looks at useful life and rate of deterioration and provides an opinion on useful life etc. However, the essence of what he contributes aren't the assumptions, inflation rate, revenue etc. Ian's role is important, but by no means the totality of judgments that need to be made.

Lisa M. commented that he also provides a good perspective based on experience on whether we're conservatively funded, we're in a good position and appropriately funded, etc. Paul Hennessy said he disagrees. Paul Hough said he does more than what Paul Hennessy believes, but that it doesn't absolve KICA from our responsibilities in this process.

Member Charles Larsen: believes short video vignettes are a good idea that clearly explains we're not fully funded.

Paul Hennessy: Per the FCM that we should consider looking at a different vendor next year for this service.

Respectfully submitted,

Ellen Festa, Executive Assistant

