

KIAWAH ISLAND  
COMMUNITY  
ASSOCIATION

FINANCE COMMITTEE

Meeting Minutes

September 28, 2023 at 9 a.m.

Bobcat Hall & Virtual

**Members Present:**

In Person: Lisa Mascolo – Chair of FC, Paul Hennessy

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

Not Present: Jeff Porter, Jim DiLella

**Staff Present:**

Shannon White - COO, Tony Elder, Director of Operations, Dale Schoon - Director of Finance

**Meeting Minutes**

Lisa M. called the meeting to order at 9:05.

Lisa M. asked for a motion to approve the minutes from the Aug 3, 2023 Finance Committee meeting. So moved by M. Petrecca, seconded by D. Diddle.

**Vote Passed: (5) In favor** – L. Mascolo, P. Hennessy, P. Hough, M. Petrecca,  
D. Diddle

**(2) Not Present:** J. Porter, J. DiLella



Lisa provided an update of FC activities. Investment Policy Statement will be discussed later. The Insurance sub-group has made some good progress. This will be a big item in terms of the budget. Dale reported that he had sent an email to the FC summarizing the legal review conducted on the Cook St. / Morgan Stanley agreement.. Dale reported that they changed language to say that notifications are now in writing and added language regarding a transition period. If there is a need for termination, this language allows for a transition period of 90 days to transition assets to a new custodian and another advisor.

Paul Hennessy asked who, from the advisor side, signs the contract. Wants to ensure that our documents clearly show that we look to Morgan Stanley and have recourse in the event something happens.

Dale and Lisa stated that everyone is in full agreement that we look to Morgan Stanley.

Cook St. is also working on a report, which will be ready for the quarterly report showing the detailed fees.

## **Insurance**

Insurance sub-group met with USI and the information is sobering. USI will run a couple of scenarios and frame up what's the most likely case vs. the best and worst possible and what it actually might cost us. There was discussion about self-insuring and that some modeling will be done in order to assess what that might look like. We are already doing some level of self-insurance through the Reserve. We also self-fund for things that are just not covered by insurance. The modeling that USI will be doing will include the level of assessment required if there should be a catastrophic event. Plan year is May to April, so we need to include some level of uncertainty in the 2024 budgeting process and how we can handle any increases. It will definitely not be a 10% increase.

Paul Hennessy said it is important to clearly signal these issues to the Community as it relates to Assessments.

## **Investment Policy Statement Review**



Good financial governance requires periodic review and update of key financial policies. The Finance Committee has chosen to review and update the IPS, among other policies. A small working group consisting of Dale Schoon, Bran Petranovic and Paul Hough was assigned this work. This draft IPS is a culmination of consultations with constituencies including members of the Finance Committee and Cook Street/Morgan Stanley (KICA investment “Advisor”) and a review of investment policies from other institutions.

The working group utilized the existing IPS as a foundation, drafting changes with the intent to align objectives across the KICA finance environment, provide a simpler and more flexible framework for on-going management and institutionalizing additional reporting and benchmark analysis.

When reviewed and approved by the Finance Committee, the updated IPS will be recommended to the BOD for approval.

The following is a summary of the substantive changes, by section, from the existing IPS to the draft 2024 IPS. This summary does not detail wording changes that do not affect the intent or purpose of the original language. A redline markup of these documents is impractical because of significant rewording and reorganization of the IPS.

## **INTRODUCTION and PURPOSE**

The draft 2024 IPS utilizes the Introduction and Purpose to educate the reader to why the Reserve Fund was established while providing overarching principles that guide its function. These two sections essentially communicate the same information from the Introduction and Principles and Rationale sections of the prior version.

The draft 2024 IPS removes any mention of the operating cash investment portfolio which will be addressed in a separate, stand-alone document. Otherwise, there were no substantive changes in this section.

## **OBJECTIVE**

The draft 2024 IPS removes the “plus 1%” from the construction inflation rate reference, choosing to rely on the rate established in KICA’s Reserve Study and eliminating the restriction of that specific target. Any change in the rate established, by policy, in the Reserve Study would automatically apply to this policy by reference.



Discussion about using construction inflation rate. Should it be defined in the IPS or leave it as a reference to what is in the MR&R Policy. If we are not comfortable with how it is defined in the MR&R policy, we should be more specific about the rate in the MR&R Policy.

## **DELEGATION OF RESPONSIBILITIES**

Only substantive change is the addition of paragraph 4 in this section that further iterates the Investment Advisor roles and responsibilities pertaining to their operating discretion.

Discussion on whether to have a separate Investment Committee. Paul Hough and the sub-group debated and discussed this quite a bit - feels it's more appropriate to have this under the Finance Committee rather than a separate Investment Committee. We feel we have sufficient technical, sufficient business knowledge and diversity of views to provide oversight of the Investment Advisors hired to manage to the guidelines defined in our policy. Cleaner, simpler model for us as an Association to adopt.

Michael P. just wants to ensure that Cook St. bears the responsibility and liability for acts that are inconsistent with our policy. Bran P. stated that the IPS is well outlined and that for any breach of the guidelines, Dale would be notified. The appropriate remediation period is defined. Dale stated that it's actually Morgan Stanley, not Cook St. and we've increased to quarterly reporting as opposed to annually. Paul Hough said onus is on us to define and modify reporting we want to see from Cook St. Bran P. clarified that FC has fiduciary responsibility to manage the relationship with Cook St. and that they are doing what they are supposed to do. Suggested changes to Delegation of Responsibilities section to clearly define the responsibilities of Cook St.

Paul Hennessy feels we should have a separate Investment Committee with concentrated skill set, not just part of the larger Finance Committee. Debbie D. agrees with Paul Hennessy that we should have a small, more specialized group. Paul Hough said it's a fundamental choice – we have hired Cook St. to do that for us, so why would we need a separate group. Bran P. and Lisa M. commented that this considerably changes KICA's liability. Paul Hennessy feels oversight would be more substantial and more focused if we have experienced, dedicated people doing this. Lisa M. this could be accomplished in the Charter by defining more specific skillsets required for the Finance Committee.

## **RESERVE FUND POLICIES**



This section incorporated much of the language of the original, however, the language was simplified and the appendices have been incorporated into the body of the IPS.

The working group worked with the Advisor to condense and broaden the allocation classes while detailing parameters that the Advisor must follow in order to provide the Advisor a better opportunity to achieve the objectives of the IPS. The prior policy was very restrictive and cumbersome in this regard.

The working group and Advisor also collaborated in establishing effective benchmarks for Domestic Equity, International Equity and Fixed Income asset classes.

Revised asset class, benchmark, target table

Asset Class	Benchmark	KICA Target	Acceptable Range
Cash	90 Day Treasury Bill	0%	0-5%
Domestic Equity	Russell 3000	30%	20-40%
International Equity	MSCI ACWI ex-US	10%	5-15%
Fixed Income	Bloomberg US Aggregate Bond Index	60%	50-70%

Current table:

#### Appendix A

Asset Class	Comparative Benchmark
<b>Fixed Income</b>	
Cash	90 Day T-Bill
Domestic Bank CDs and Bonds	Barclays Aggregate Bond Index Intermediate Govt.
<b>Total Equities</b>	
<b>MSCI All Country World Index</b>	
Domestic Large Cap Value	Russell 1000 Value Index
Domestic Large Cap Blend	S&P 500 Index
Domestic Large Cap Growth	Russell 1000 Growth Index
Domestic Mid Cap Value	Russell Mid Cap Value Index
Domestic Mid Cap Growth	Russell Mid Cap Growth Index
Domestic Small Cap Value	Russell 2000 Value Index
Domestic Small Cap Growth	Russell 2000 Growth Index
International Large Cap Value	MSCI Developed EAFE
International Large Cap Growth	MSCI Developed EAFE
International Small Cap Value	MSCI Developed EAFE
Emerging Markets	MSCI Emerging Markets Index

#### Appendix B – Asset Allocation Strategy

Asset Class	KICA Guidelines	Acceptable Range By Class
<b>Cash and Fixed Income</b>		
Cash	2%	0-5%
Federally Insured CDs, US Treasury and Government Agency Obligations, Taxable Municipal Bonds, Corporate Bonds (Investment Grade)	63%	60-65%
<b>Total Cash and Fixed Income</b>	<b>65%</b>	<b>60-70%</b>
<b>Equities</b>		
Domestic Large Cap Value	4%	
Domestic Large Cap Blend	8%	
Domestic Large Cap Growth	4%	
Domestic Mid Cap Value	1.75%	
Domestic Mid Cap Growth	1.75%	
Domestic Small Cap Value	1.75%	
Domestic Small Cap Growth	1.75%	
International Large Cap Value	2%	
International Large Cap Growth	2%	
International Small Cap Value	1%	
Emerging Markets	2%	
Discretionary	5%	
<b>Total Equities</b>	<b>35%</b>	<b>30-40%</b>
<b>Total</b>	<b>100%</b>	

ADOPTED: At the KICA Board of Directors meeting on July 11, 2022



Paul Hennessy asked if Non-Investment Grade Fixed Income Securities are prohibited – per Bran P. they are listed in the prohibited section. Is there an allowance for structured products, ex: Mortgage Backed Bonds. Per Bran P. yes, it's implied since it's part of the Bloomberg USI Index. Discussion about complexity of what's in the Bloomberg and how to manage it or list it. Bran P. said the IPS is geared towards Cook St., not the KICA owner and has never seen that level of detail in any IPS.

## **MEASUREMENT OBJECTIVES**

No substantive changes to the language with the exception of adding that the “Advisor shall establish and maintain a clearly defined process for reviewing investment managers .....

Member Brad McIlvain asked why the draft document being discussed is not available to the public for input and commentary. Lisa M. stated that she would like the FC to continue their work to come up with a recommendation to the Board prior to opening it up for the public. Paul Hough said the FC is not ready for public input; he would like the FC to finish reviewing and discussing first.

## **SECONDARY CASH MANAGEMENT ACCOUNT** (existing version)

This section was eliminated in order to maintain focus on the Reserve Fund IPS and eliminate confusion as to purpose and implementation.

The working group is considering the need for a separate and distinct statement for short-term operating cash investments, acknowledging the guidance that exists within the Financial Controls Manual.

Paul Hough reviewed some proposed appendixes that the sub-group discussed that appear in other policies and may be useful in providing overall context for members and/or Cook St. as it relates to risk tolerance and how FC thinks about it. Dale stated we could have a section on the website that incorporates these informational appendixes along with the IPS. Paul Hennessy felt the documents were overwhelming. Bran P. feels the IPS should be a pretty tight document. Do we need additional documents so that owners have a better understanding of why we're doing what we're doing? Appendixes attempt to do that. Lisa M. likes the approach. Paul Hennessy feels it's clear enough in the IPS. Shannon suggested that when the IPS is finalized and sent out, perhaps this type



of information can be part of that, used as a lead in that explains the philosophy of what the FC is doing. Paul Hough said it will not take away from the policy, but anything that helps provide understanding, will be helpful. All were in agreement it doesn't belong in the IPS itself.

Discussion about timing of presenting this to the Board. First discussion will be at October 9 Board meeting.

## 2024 Budget Guidelines and Assumptions

Dale provided an overview of budget preview and process. Staff is targeting a balanced budget approach with concentration on our key drivers:

		Possible Impact
Property Insurance	20-50% possible increase	\$100K - \$250K
Employee Insurance	19.25% increase	\$100K - \$125K
Payroll	New hires; pay increases; incentives; Payroll taxes, etc.	\$500K - \$600K
Capital Items	Depreciation on new items	\$100K

For Employee Health Insurance, HR is looking at multiple options in regards to reducing the increase, i.e.: level funded, captive, deductibles, out of pocket, looking at all the different models. Getting all the information and will bring it back to the Finance Committee in October. KICA claims history is poor, it's not an anomaly. The carrier's initial renewal quote includes a 19.25% premium increase which is not ideal. Last year, several carriers declined to bid on our business. Other organizations similar to KICA are challenged with the insurance environment as well.

Other considerations

- Targeting a surplus for designated reserve(s); i.e. self-insurance, Reserve contribution, etc.
- 5% Increase in General Assessment produces estimated \$550k revenue
- 10% Increase in General Assessment produces estimated \$1.1M revenue
- Current pay increases 3-4%; BOD is currently benchmarking the COO, directors and 2 specialty positions

Paul Hennessy asked what baseline revenue projections are. Dale stated analysis of all revenue streams has not been completed yet.

Paul Hough said this was very helpful at a high level and the FC will be looking at this in more detail at upcoming meetings. This will raise the question of excess cash and assessment fee levels etc. How are you proposing we deal with this in terms of operationalizing this plan?



Lisa M. stated that the FC will be looking at all this information in more detail in the October session prior to making a recommendation to the BOD. But given all this information, the likelihood of not raising the assessment is small.

Paul Hough asked if Dale would be providing an update to cash liquidity. Dale said he would and will also be updating the Max Annual Assessment number so that you will have that.

Dale commented on preliminary MRR budget:

- Revenue is first blush estimate.
- Decrease in 2024 Assessment is related to Flood no longer being recognized in 2024.
- CTR - Cape comes in for 2024 - \$1.5M
- Includes funding for Roads to keep them up to standards
- 2026 spending is expected to be much higher but not yet projected in this report

<b>MRR 2024 Preliminary DRAFT Budget</b>				
<b>Finance Committee Meeting - 9/28/23</b>				
	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
<b>Revenues</b>				
Assessments	1,978,193	1,564,000	1,564,000	1,564,000
Investment Income	298,000	300,000	300,000	300,000
Contributions to Reserve (CTR)	3,050,000	4,000,000	2,750,000	3,500,000
Commercial Access Fees	2,162,085	2,201,490	2,200,000	2,200,000
<b>Total Revenues</b>	<b>7,488,278</b>	<b>8,065,490</b>	<b>6,814,000</b>	<b>7,564,000</b>
<b>Expenses</b>				
Capital Project - Landscape	420,000	415,000	290,000	250,000
Capital Project - MRR	5,427,681	6,457,550	4,656,000	2,736,000
<b>Total Expenses</b>	<b>5,847,681</b>	<b>6,872,550</b>	<b>4,946,000</b>	<b>2,986,000</b>
<b>Net Surplus/Deficit</b>	<b>1,640,597</b>	<b>1,192,940</b>	<b>1,868,000</b>	<b>4,578,000</b>

### Reserve Study Update

Tony provided an update on the Reserve Study. Most recent review shows that we went from 56.9% funded to 57.2% and contribution recommendation remained the same at 4.6%. Shannon stated that we would be looking at our current cash position to make sure we would be contributing the correct amount to the Reserve fund.

Lisa M. summarized the To Do items discussed by the FC:

- The IPS shall reference the Inflation index contained in the MR&R policy





- Dale to confirm Cook Street/MS definition of “fiduciary” responsibility aligns with SEC definition of fiduciary as per Paul Hennessy.
- Finance Committee Charter to include that when soliciting new members, diverse knowledge and skillset should be considered: to include investment, insurance, audit, and other expertise.

Member Brad McIlvain asked that draft documents being reviewed at these public FC meetings be made available so that members can follow along. Lisa M. said we would do this going forward.

Shannon asked online participants if the video freezing was an issue during this meeting as we continue to isolate and test our A/V equipment. Participants indicated there were no issues today.

Lisa M. asked for a motion to adjourn. So moved by Paul Hennessy, seconded by M. Petrecca. Meeting adjourned at 10:44 a.m.

*Respectfully submitted, Ellen Festa, Executive Assistant*

