

KIAWAH ISLAND
COMMUNITY
ASSOCIATION

FINANCE COMMITTEE

Meeting Minutes

October 26, 2023 at 9 a.m.

Bobcat Hall & Virtual

Members Present:

In Person: Lisa Mascolo – Treasurer, Paul Hennessy, Paul Hough

Virtual: Debbie Diddle, Michael Petrecca, Jeffrey Porter, Bran Petranovic

Not Present: Jim DiLella

Guests: Dana Hensel, Stuart Thomas, (V) Cook Street

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 9:01.

Lisa M. asked for a motion to approve the minutes from the September 28, 2023 Finance Committee meeting. So moved by P. Hennessy, seconded by P. Hough.

Vote Passed: (6) In favor: L. Mascolo, P. Hennessy, P. Hough, M. Petrecca,
D. Diddle, J. Porter

(1) Not Present: J. DiLella

Q3 Investment Report



Dana Hensel from Cook St. presented the Q3 Investment Report.

FC Comments:

Bran P.: Breakdown cash more – show more depth on what drove performance.

Paul Hennessy: What is timing? Does it reflect market as of date indicated, or is there a lag in terms of reporting values? Dana stated it is as of date indicated.

Would like to see the benchmarks against the portfolio as it existed as of the record date.

IPS Statement

Dale reviewed changes in these sections.

Objective: No credible citation for a Construction inflation index, so it was taken out. Will link to the inflation rate in the Reserve Study and will update automatically when it changes.

Reserve Fund Policy under Limitations: Bran P. we don't want large single line investments. When allowing for individual equity allocations, we want to limit exposure, be diversified in this approach but be cognizant of risk. Paul Hough suggested Cook St. scan the portfolio to make sure everything is in synch and ensure that this is a reasonable threshold.

Discussion about single issuer/equity positions and individual equity allocations.

Paul Hennessy said it doesn't sound like something Cook St. will do, it's not core to our strategy, and it's not an important driver so why have it in there.

Lisa stated we will leave it as is and she will take that point back to the Board.

** Reminder to Lisa to make this point about the 25bps back to the Board.

Discussion on non-investment grade securities and does it specify that we don't do this.

Bran P. explained the Bloomberg index and how it works with investment grade securities. There could be non-investment grade securities in there, but it would be temporary.



Paul Hough suggested we say our ‘intent’ is to hold only investment grade securities, but due to market mechanics, we recognize there could be some temporarily.

Stuart (Cook St.) suggested to add language around using high yield issues at time of purchase – prohibits us from buying below grade investment bonds outright, but acknowledges that there could be a downgrade at certain times. Dale and Stuart to work on language.

Discussion about Board concerns related to increasing Equity range to 55% and is the FC accounting for risk and how it impacts membership.

Paul Hennessy – Board discussions touched on ‘potential’ to go up to 55%. What happens if market crashes, could potentially experience high losses. Where do we explain to the community trade-offs between returns against potential volatility inherent in equity portfolios?

Paul Hough – perception is that all the risk is in equity and it’s not. Question that should be asked is why we are expanding ranges on both fixed income and equity.

Bran P. need to look at drawdown risk – what is acceptable to KICA? If we lose money, how do you plan on replenishing? As custodians, how do we think about this from a long term perspective?

Paul Hough: Board will have to decide what to do if there is a market event. Defer maintenance? Increase assessments?

Bran P. Prudence cuts both ways. Can’t be too conservative or overly conservative because then we’re not doing our job of growing our portfolio.

Lisa M: How to present this to the Board as a philosophy, not just why did we go to 55%. We’re in long term investments, not short term. Frame things this way.



Overall agreement of the FC to not take this to the Board at the November meeting. Take more time to have FC discussion on best approach:

- What are our goals?
- What does advisor need in order to do that?

Frame the right discussion, not just about the 55%. Explain why this is the right target. Helps to educate the Board and Community. Cook St. agrees with longer term perspective.

Paul Hough – markets have historically recovered over time. Have to be in it for the long term which aligns with KICA since our assets are long term.

Review of Activities

Lisa reviewed Board activities related to Election. Encourages F.C. to get friends to run and vote.

2024 Budget – 1st presentation

Dale provided an overview of the 2024 Budget.

Note: \$145K V-Gate net deficit is a BOD strategy to draw down the V-Gate Fund Balance to a balance approximating replacement value. As a result, the \$145K net deficit is segregated in balancing the overall budget. .

Paul Hennessy: Can the membership forum for review of Budget be calendared on Nov 30 and eliminate the Nov 13 Community Budget presentation? Gives more time to finalize the Budget, get input from the Community and have FC discuss. Is there enough time between Nov 30 and Board Budget approval on Dec 4 to make changes?

**** To Do:** Lisa M. to discuss with Board to change the date of the Community Budget presentation.

Access Fees

Paul Hough – should increase access fees every year as a general rule.

Reserve Fund Assessment – keeping static for now. Need to have more discussions on Reserve Funding %.

Debbie D.: How is CTR contribution raised? This would require a Covenant Change. F.C. can bring this to the Board but it's related to MR&R, not related to Operating deficit.



Dale: Establish Budget philosophy. Staff presumes the strategy is to build a Balanced Budget until directed otherwise.

Bran P. asked if there is analysis done on whether staffing is efficient. Do we need as many people as we have?

Staff maintains a staffing by department schedule that is analyzed in conjunction with strategies to optimize service and support. Staffing costs are going up, not necessarily staff #.

Paul Hough commented that it's amazing that this island is run by 100 people – it's extraordinary. He feels we should always be presenting a Balanced Budget which, in part, dictates what the assessment will be.

Health Insurance

Looking at a 17% increase with BCBS. Reviewed plans including self-insured (Captives). Need to switch by November 15 and it's not a small decision.

Jeff P. said that the FC and Board should be given the presentation on captives, it will help get them comfortable with how it all works.

Paul Hennessy asked about the Resort.

Sarah said the Resort is self-insured.

Lisa M. feels there's not enough time to make this complex decision by November 15th due to addressing employee questions and Board questions. Is this something to look at for Plan Year 2025? Conversation ensued, leading to a strategy to educate the FC Insurance Sub-committee, including Lisa, in an effort to consider this option and a recommendation to the BOD at their Nov 6 budget workshop.

- Employee questions may be minimal since there are not many changes for the employee.
- Employees will see an increase if we stay with BCBS.
- KICA risk – maximum cost will be similar to BCBS cost with increase.
- Historical risk of reaching max is low.



- Shannon feels it's better for the employees. KICA will have access to claims information that BCBS does not provide since we are under 100 employees. Can manage our costs better and potential for long-term costs to go down.

Is this the right decision for KICA?

- Good track record – looked at 2 Captives – 800 companies.
- Client retention rate is 98%
- No groups have hit the max risk level
- Have to be 100% convinced it's better for the employees. Staff recommendation at this time is to do it.

**** To Do:** Shannon will send out presentation electronically to the F.C.

Property Insurance

Placeholder increases are in Budget: 30% Property and 10% Liability. Jenks at USI Insurance (insurance agent) indicated the property insurance could go up 20 – 50% depending upon what happens in the marketplace leading into renewal (May 1).

Paul Hennessy asked if self-insurance is still on the table.

Dale referred to Page 10 of the presentation which summarizes KICA's assets and the part insurance, asset replacement \$ (funded depreciation) and Reserve funding play in the replacement of assets from a catastrophic event. This is a topic that requires more strategy discussions.

Lisa M. asked if there's a comparable self-insurance option in this area. Need to research this.

Suggestion made to share the Reserve Study Analysis (Page 10 on Dale's presentation) with the Community. Be careful how you present the number of assets that are not funded.

Lisa M. asked for a motion to adjourn. So moved by Paul Hennessy, seconded by Paul Hough. Meeting was adjourned at 11:04.

Respectfully submitted, Ellen Festa, Executive Assistant

