

KIAWAH ISLAND  
COMMUNITY  
ASSOCIATION

FINANCE COMMITTEE

Meeting Minutes

November 29, 2023 at 10 a.m.

Bobcat Hall & Virtual

**Members Present:**

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

Virtual: Debbie Diddle, Jeffrey Porter, Bran Petranovic, 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 10:01 a.m.

Lisa M. asked for a motion to approve the minutes from the October 26, 2023 Finance Committee meeting. So moved by M. Petrecca, seconded by J. Porter.

**Vote Passed: (7) In favor:** L. Mascolo, P. Hennessy, P. Hough, M. Petrecca,  
D. Diddle, J. Porter, J. DiLella

**Review of Activities**

Lisa M. reported that the Board of Directors approved self-insurance for Employee Health Care at the November 6, 2023 Board Meeting. Everyone is tuned in on potential increase in Property



Insurance which is currently forecasted at 30% but could be higher. This ties in with any discussions about our excess cash and what we want to use that for.

## 2024 Budget

Dale reviewed the final 2024 Budget and forecast. Started forecasting last year. It is learning curve process and will get more effective as we go.

### FC Comments:

Paul Hennessy: Commented on changing the 15% of CTR that goes to Operating. Think about an inflation adjusted number as opposed to a % if the time and effort remains relatively stable.

Lisa M. asked if it's worthwhile to do this.

Paul Hennessy: If market value changes, is 15% too much or too little. Show allocation of 15% on a separate line, not buried in Other Income.

**\*\* To Do**: Look at this for 2024 – add to our To Do List.

Paul Hennessy asked when do we actually fund Reserve. For ex: when does the cash actually move for investing per IPS.

Discussion ensued, culminating with Dale indicating that operating funds have not been transferred to long-term Reserve investments to-date because the short-term money market rate for these deposits has been yielding 5-5.25% and Cook Street has agreed that to be favorable.

The Committee agreed that the operating cash investment policy needs to contemplate short-term investing policies/guidelines as well as transfers to long-term, Reserve investments.

Debbie D. asked why isn't Comcast in Operating Revenue.

Dale said its deferred revenue. It's categorized in Operating Fund as non-operating revenue.

**\*\* To Do**: Other income is too broad a category – break this out.

Jeff P. asked about (\$250,000) Interfund transfer.



Dale clarified that Cook Street/Morgan Stanley, at the time of a Reserve asset maturity, inadvertently transferred these funds to the Operating Fund account, necessitating this interfund transfer.

Cash Basis - Liquidity – Projection as of 12/31 - Kevin D. requested this projection for 2024 which Dale will complete.

Jim D. commented on Restricted Funds (\$6.5M) – why are they in Operating and not Reserve. Shouldn't they go under Reserve Fund in order to grow investment income?

Paul Hough – getting hung up on accounting structure. The question is how is the money in restricted funds invested?

Bran P. responded that it is being invested in a short-term treasury ladder. He stated the IPS is for Reserve, and will be looking at a separate IPS for Cash.

Paul Hennessy: When do funds move into Reserve and when do investment returns get credited to the Reserve Fund?

Paul Hough: All ties into the overall position on how we've been using available unrestricted funds, ex: lowering member assessments. Big picture is are we comfortable with how all the cash is being managed in order to maximize returns for the Community.

Paul Hennessy asked if we are going to produce the year end “Where is my Money” presentation.

Dale confirmed that we will.

## **Budget Figures**

Dale reviewed several Operating changes made since last FC presentation. Investment returns, V-Gate assessment increase, etc.

Lisa M. asked what the \$75K for V-gate design includes.

Shannon indicated it includes full engineering design and architecture. This relates to Board request to look at potential changes in the V-Gate to improve conditions for employees. V-Gate is structurally different than the Main Gate.



Jim D. asked if there is a benefit and purpose of the V-Gate. He doesn't feel it provides value or security. Feels staff should have guns which is done in many other communities.

Shannon stated the V-Gate turns around rental resort traffic all the time since they are not allowed behind the V-gate.

Shannon indicated that KICA has 2 senior Security staff licensed to carry but currently only has 1. KICA has decided not to arm additional Security staff. There's not enough training provided and is a potential liability issue.

Board had requested options for the V-gate at the Nov 6 Board meeting.

Paul Hennessy also agrees with Jim D. about what is the value of the V-Gate. Give consideration to automating the V-Gate or alternate solutions.

### **Commercial Access Fees**

Proposed 5% increase in access fees. Board had asked that we increase Commercial Access fees similar to increases to Member assessments. One member of the Board felt that they didn't correlate and increase at same pace. Staff looked at similar local gated communities. KICA was too low with a 5% increase. KICA has more commercial traffic than Seabrook for example. Proposal to raise rates based on Option 2 scenario.

Bran P. asked if there's a breakdown of Commercial traffic for new home building vs. regular maintenance.

Shannon stated it's a mix. Members continually invest in their properties. Any increase would impact both the average member as well as the Resort and Club.

Fleet rates for 6 – 8-wheel vehicles would have a 21% increase. Bigger vehicles cause more wear and tear on our roads. Results in roughly \$623K budgeted increase in commercial access fees with 15% or \$93K going to Operating.

Paul Hennessy and Paul Hough both agree and accepts KICA staff judgement on this recommendation.

Paul Hennessy: Question on Kayak Storage.



Shannon stated the Board is reviewing Kayak capital project to see whether they will approve all, none or a phased approach.

Paul Hough suggests we look at all Amenity fees on a regular basis.

Paul Hennessy asked that we add an asterisk that the \$681K capital for Kayak storage is being reviewed by the Board.

FC in agreement that the \$119K in Capital be part of the budget.

Short discussion on Funded Depreciation and if we are funding this appropriately. Capital schedule includes a mix of new items in addition to replacement items. Inflation is not calculated in our Funded Depreciation figures.

### **Assessment Increase**

Dale reviewed the net deficit figure needed to balance the budget (\$1M) and the proposed assessment increases. 10% increase closes the gap and equates to an effective combined assessment increase of 8.4%.

Projected Unrestricted Fund Balance at the end of 2023 is \$1M – Does FC want to use this to lower assessment. Take the volatile property, liability and health insurance markets and other possible targeted reserve needs into account in 2024.

Discussion on fundamental question and philosophy – Do we use excess cash or increase assessment?

Paul Hough – should be a cash decision. We have \$2.1M excess cash but a 10% assessment increase will not sit well with membership when we have all this excess cash.

Michael P. said it's important how we word the communication about this. More explanation on why we're raising it incorporating Dale's analysis.

Paul Hennessy feels our Operating Budget should be break even. Determine if we should keep excess cash and if so, how much.



Paul Hough feels FC should recommend a 10% increase and then Board can decide if they want to use the surplus or declare a special dividend. Do this outside of the Budget process for more transparency. KICA needs to establish a policy/guidelines around the balanced budget philosophy and how cash reserves are utilized.

Debbie D. has concerns about an increase when we have so much cash. There are other options we can look at – for ex: revisiting the 85% / 15% split.

Lisa M. – that split is something we can look at in 2024. Let's recommend 10% since it balances the budget and let's recommend that in Sept/Oct the Board looks at where we are and decide whether or not a credit could be issued.

Jim D. agrees with 10% increase but disagrees with giving any cash back to members. Should be used for building up Reserves, Named Storm Fund, self-insurance etc. for our future benefit.

Bran P. prefers lowest assessment increase possible, but there's some value to have a cash buffer over time.

Jeff P. agreed with Bran. We need to keep some level of unrestricted cash balanced with explaining an assessment increase while having so much cash. What is appropriate unrestricted cash amount?

Lisa M. – Suggests recommendation to Board should include that the FC will look at this in 2024 as 2 separate parts. FC will discuss approach for unrestricted cash – and what that number should be. In the interim, recommend to not have a deficit and go with a 10% increase.

Michael P. suggests communications approach should explain the Fund Balance is Board Restricted Funds and there's an assessment increase for these finite reasons. He could help draft communication.

The unanimous conclusion and recommendation of the Committee to the Board is an assessment increase of 10% general, 0% reserve and 5% amenity, for a combined increase of 8.4%. The committee also supported a commercial access fee rate increase as represented in Scenario 2.



## IPS Statement

Paul Hough said a 2-page summary was prepared. Lisa M. likes where we are with the IPS.

Bran P., Paul Hough and Dale are also comfortable with where it is.

Debbie D. – OK with it

Jim D. – Great job - OK with it

Michael P. – OK with it

Paul Hennessy expressed concerns:

- Equity % - assumption is equity will always be in portfolio. Shouldn't assume the mix should remain. Need to consider risk appetite of the community.
- Not satisfied with Cook St. equity philosophy and what downside exposure members should expect. Doesn't feel Cook Streets analysis is good.

Paul Hough – can't only focus on risk in equity. Fixed income is also a risk. We have long-term liabilities we have to look at.

Ultimately Board decision on how to approach equity.

Paul Hennessy added additional comments:

- Doesn't feel Cook St. has done a good job looking at volatility of entire portfolio.
- Cook St. shouldn't be able to make changes to the mix without notification.
- Members care that the Reserve keeps pace with inflation.

Discussion about the objective of the IPS. Does it need to be more explicit?

- Diversification is important
- Needs to reflect long term nature of asset management.

Lisa M. is OK to present to the Board with Paul Hennessy concerns but will remove it from the Board's agenda on Dec 4 and have the Finance Committee take one more swing at it.

Lisa M. asked for a motion to adjourn. So moved by Michael P., seconded by Paul Hennessy. Meeting was adjourned at 12:10 p.m.

*Respectfully submitted,*



*Ellen Festa, Executive Assistant*

