

KIAWAH ISLAND
COMMUNITY
ASSOCIATION

FINANCE COMMITTEE

Meeting Minutes

May 16, 2024 at 9 a.m.

Bobcat Hall & Virtual

Members Present:

In Person: Lisa Mascolo – Treasurer, Larry Wolahan

Virtual: Bran Petranovic, Dave Nielson, MaryAnn Ashton, Paul Hough

Not Present: John McGowan, Michael Petrecca, Debbie Diddle

Guests Present:

Virtual: Frank Moody, Reserve Specialist

Staff Present:

Dale Schoon - Director of Finance, Tony Elder - Director of Operations

Meeting Minutes

Lisa M. called the meeting to order at 9:01 a.m. She reported that the Board approved the Designated Cash Fund IPS.

Lisa asked for a motion to approve the minutes from the April 25, 2024 Finance Committee meeting. So moved by Larry W., seconded by Paul H.

Vote Passed: (6) In favor: L. Mascolo, P. Hough, D. Nielson, M. Ashton

B. Petranovic, L. Wolohan



Reserve Study Presentation

Dale provided an overview of the MR&R and Reserve Fund program, how it's used, funded, reviewed and inspected, etc. Clarified that the Reserve Fund is not intended to act as insurance in the case of a catastrophic event but is to account for the repair and replacement of deteriorated assets over time. These assets, however, would be considered as a resource in the event of a catastrophic event. Projected revenue streams, Reserve Study projected expenditures, inflation and interest rates, component composition and management quality directives and assessments all have impact on the Reserve funding level. Finance Committee role is to review these variables at least annually, provide the Reserve Specialist direction and recommend philosophy and operational considerations to the Board.

Frank Moody, Reserve Specialist reviewed the Report.

Currently at a 74.2% funding level which is significantly higher compared to previous years.

Dale explained that the increase resulted from a higher starting balance in the Reserve Fund due to approx. \$2M better than budget performance from 2023, approx. \$2M budgeted surplus for 2024 and a flat “fully funded Reserve balance” from the Reserve Study. In essence, revenue streams are outpacing expenditures creating the higher funding level.

Report includes contributions needed to be fully funded in 30 years.

Paul H. commented that there are a lot of nuances that are important to note. For ex: philosophically should we be 100% fully funded. Board historically has set a 50% funding level. Depreciation, with over 800 components, is complex across those 800 components. Actual revenue and expense experience can vary greatly from projected. Don't want members to think we're overcharging or that we're not handling the deterioration of KICA infrastructure properly.

Paul commented on inflation rate and the link to targeted yield returns in our Investment Policy.

No on-site visit was done this year by the Reserve team. Tony's team did on-site inventory and quality assessments.

Reserve doesn't include fixed asset listing. This is just more longer-term assets.



Frank Moody reviewed Budget Summary by category. Paul H. commented on the impact of inflation to current total replacement cost of \$57M. Look at how it compares to previous years (pre-Covid, pre-inflation).

For ex: Frank shared figures from 2020 - \$46M with a funded rate of 31.5% so big increase since then. Dale shared that over the past few years, increases in revenue streams (CTR, access fees allocated from the Operating Fund) contributed to improving the %. 30-year summary uses a 3% inflation rate. 1.9% inflation rate is projected for 2025. Reserve specialist opined that our 50 – 70% funding level is adequate.

Bran P. asked how inflation rate is derived?

Frank Moody stated we use the CPI rate – during COVID that figure was super-inflated. Building costs have calmed down since then.

Bran P. feels we should look at historical CPI average – thinks we will get questions on how and why we used the figures we did.

Paul H. stated it's a judgement call that uses an average of high and low. It can be changed each year if necessary – it's not static.

Dale shared 10-year projections with 3, 5 and 6% inflation rates. Changing Interest rates are less impactful.

Larry W. asked if this includes new assets?

Frank M. said it does not – all are existing infrastructure assets – new assets are funded out of the Operating Fund and then added to the Reserve Fund component listing.

Discussion on Reserves, contributions, surplus, budgeting and estimated figures from the Specialist as it relates to forecasting and expenditures of Reserve funding over the years. All estimates are reasonable and prudent in the context of planning.

Paul H. stated the large amount of property sales in recent years will not last. Questions will come about the 74% funding level – we've never been here, so be prepared to address those questions.

Dale said contributing factors include good performance against budget, operating surplus, increase in revenue streams and relatively flat Reserve expenditures.



Lisa M. asked if there's anything we can improve or do better? Board will need to determine if 50-70% threshold is good.

Frank M. stated we're in a great position.

Bran P. asked how we compare against similar associations. Frank M. responded that there are not many 'Kiawahs' – most associations are 30% or under.

Paul H. asked if there are any other assets we should be considering for useful life adjustments.

Frank M. said you could shorten the useful life of the boardwalks. Tony E. agrees they are not lasting 20 – 30 years and management will be considering components useful lives and possible recommendations to the FC/BOD.

Lisa M. appointed David N. and Bran P. to a sub-committee to consider Reserve Fund funding philosophy, the source for Reserve Study inflation rate and appropriate membership communications.

Lisa will report to the Board that the FC reviewed the Reserve Study and has no issues with where we are.

**** To Do:** Create summary chart on history of the Reserve Fund to be able to see this for perspective.

5% inflation rate was thought to be too aggressive.

Discussion and debate on what inflation rate to use – national? Or regional? (Kiawah) Kiawah is not the same as the rest of the country – we're higher. Come up with a simple methodology and document in Investment Policy – 3% seems reasonable. All agree interest rate should match inflation rate.

David N. asked at what point do we reduce the \$325 Member assessment for Reserve given 70% funding level. If it increases to 85% funded, what then. Paul H. said there's an Operating Assessment reckoning coming in relation to MR&R assessment and Operating subsidy. It is important to first establish philosophies and strategies regarding targeted funding levels, revenue streams, budgeting, designated/restricted funds, etc.



Member Paul Hennessy: Comments on funding level. Current policy says ‘up to 50%’ so we’re in violation of current policy – needs to be updated. Expressed lack of confidence in Reserve Specialist and asked if it’s time to go out for bid as per the FCM. Stated disclosure to members is less than ideal. Need to decide what information we’re going to disclose. Comments on inflation and use of inflation index. Funded reserve at less than 100% - more perfect hedge against inflation.

Dale provided an update on delinquent accounts – majority are part-time. Current fee charged to the member for lien processing is \$250 – consider raising it to \$500 due to actual costs incurred.

Paul H. thought all of our costs should be passed on to members. Dale commented that determining a cost per member would be too subjective and preferred a set rate. \$500 appears reasonable for the current year. The FC supported the change.

Flood Special Assessment unspent funds – originally slated to be transferred to the Reserve Fund. Dale shared that his research determined that the Member Referendum and related correspondence simply required that the unspent funds be restricted solely for future water management needs. Discussion ensued that these funds would likely be spent in the next several years and therefore didn’t belong in the Reserve Fund but instead should be restricted and the funds placed in the Designated Cash Fund investment bucket. The Finance Committee agreed.

Lisa M. asked for a motion to adjourn. So moved by Larry W., seconded by Bran P. Meeting was adjourned at 10:58 a.m.

Respectfully submitted,

Ellen Festa, Executive Assistant

