



Mutual 40

Town Hall Meeting

July 21, 2023

Opening Remarks

Susie White - President

- Introductions:
 - Board of Directors
 - MOD Director (current & new)
 - GRF CFO
 - Mutual 40 legal counsel
- Agenda:
 - Review Mutual 40's history & current structure
 - Discuss recommendation to merge the finances of Projects 40 & 41

Mutual 40 – History

- Prior to 2021, Projects 40 & 41 were among over 20 “projects” managed within Third Walnut Creek Mutual
- Project 40 -- 114 manors

(Terra Calif. entries 9, 10, 12, 14; Saklan Indian entry 2)
- Project 41 -- 72 manors

(Terra Calif. entry 11, Saklan Indian entries 6, 8, 10)
- In 2021, Projects 40 & 41 “disengaged from” (left) Third Mutual and together became Mutual 40

Why We Left Third Mutual

- Create a smaller self-governed, cohesive community
- Focus on issues important to our community
- Streamline management & decision-making
- Reduce liability insurance costs

Ways in Which Projects 40 & 41 Have Unified

- Single corporation (Mutual 40) with a single board of directors & officers
- Single set of working committees: Alterations, Building Maintenance, EPO, Finance, Governing Docs., Landscape, Trash/Recycling
- Single management contract with MOD
- Paths, parks and other common areas enjoyed by all M40 residents
- Major expenses already shared equally among all M40 manors

Final Step to Unify

- Current CC&Rs retain some separate financial accounting for Projects 40 & 41
- Result: 2 budgets, 2 financial statements, 2 coupons, 4 bank accounts, 2 investment accounts
- Result: complexity, confusion, expense
- Intent was always to completely combine the two “projects”, and it's time to complete the job

What it means to “combine” the finances of P40 and P41?

- No more separate “projects”
- Single annual budget & monthly coupon
- All expenses shared equally among all 186 manors
- Single set of financial reports/statements
- Single set of bank & investment accounts
- Single reserve fund

Benefits of Combining Finances

- Complete the creation of a single unified community
- Simplify accounting, budgeting, fiscal planning
- Reduce costs of audit, reserve studies & legal services
- Streamline overall management of Mutual 40
- Provide more flexibility in scheduling rehabs & upgrades
- Create larger pool of reserve funds for unexpected expenses
- Create larger pool of reserve funds to improve investment returns

Finance Committee Review

Board asked Finance Committee to analyze & make a recommendation on combining finances of P40 & P41

Gayl Westendorf (P41) (Chair, Treasurer)

Ron Dornseif (P41)

Greg Gould (P40)

Joe Tracy (P40)

Stan Wells (P41)

Criteria for Combining Finances

- Must be fair & equitable for all members
- Must comply with M40 governing documents & applicable law
- Must be approved by members

What is “Fair & Equitable”?

Combining accounts, having single budget & single, equal coupon must be fair to all owners:

- (1) No expense shifting between P40 & P41 owners
- (2) No asset shifting between P40 & P41 owners

Two Parts to Our Finances

- Operating – day-to-day expenses (GRF fee, routine building and landscape maintenance, utilities, MOD management fee)
- Reserve – major repairs & replacements (building rehabs, repaving, major landscaping, tree removals)

Finance Committee's Analysis:

- Reviewed past & projected future operating & reserve expenses for both projects
- Prepared 10-year projection of reserve income & expenses
- Reviewed Helsing 30-year reserve funding studies for both projects
- Reviewed current operating & reserve fund balances for both projects & ways to “equalize”
- Obtained input from GRF & MOD management

Conclusion (1): No Expense Shifting

- Total per manor expenses (operating + reserve) of P40 & P41 differ slightly from year to year, but overall are very similar
- Projected future reserve expenses (building rehabs, paving, landscaping, etc.) are only slightly higher for P41 than for P40, and proposed “equalization” of Reserve Funds addresses this difference

Conclusion (2): No Asset Shifting If Fund Balances Are “Equalized”

- Operating Fund & Reserve Fund balances of P40 & P41 are significantly different (see next slide)
- Need to take steps to “equalize” fund balances to avoid asset shifting between P40 owners & P41 owners

Fund Balances (12/31/22):

	Operating Fund (per manor)	Reserve Fund (\$ per manor)	Reserve Fund (% of Helsing “fully funded”)
P40	\$1,246	\$9,529	37%
P41	\$1,866	\$8,390	30%

“Equalization” Methodology

- Equalize Operating Fund balances based on equal \$/manor for P40 & P41
- Equalize Reserve Fund balances based on equal % of Helsing “fully funded” reserve targets for P40 & P41
- Equalize based on most recent expert opinions: CPA “reviewed” financials and Helsing reserve studies for 2022

Equalizing Operating Fund Balances:

- P41's Operating Fund balance per manor is \$620 higher than P40's
- To equalize, transfer \$620 per manor (total of \$44,640) from P41's Operating Fund to P41's Reserve Fund

Equalizing Reserve Fund Balances:

- After the transfer from P41's Operating Fund, P41's reserves (as a % of P41's "fully funded" target) are still \$1,260 lower than P40's reserves (as a % of P40's "fully funded" target)
- To equalize, require each P41 owner to make a one-time contribution (a "special reserve assessment") of **\$1,260** to the P41 Reserve Fund

Result of Fund “Equalizations”:

	Operating Fund (\$ per manor)	Reserve Fund (% Helsing “fully funded”)
P40	\$1,246	37% (\$9,529/manor)
P41	\$1,246	37% (\$10,270/manor)

Proposed Payment Terms for P41 Reserve Assessment

- Assessment of \$1,260 levied on November 1, 2023
- P41 owner may elect to pay in lump sum or 12 monthly installments of \$105
- Unpaid balance must be paid on sale or transfer of manor

Unanimous Conclusions/Recommendations of Finance Committee & Board of Directors:

- Combining the finances of P40 & P41 would be in the best interests of all M40 members
- Combining the finances of P40 & P41 will be fair & equitable if the Operating & Reserve Fund balances are “equalized” as proposed

Reviewed by MOD & Legal Counsel

Proposed financial combination reviewed & supported by:

- Director of Rossmoor MOD
- CFO of Rossmoor/GRF
- Mutual 40's legal counsel

Actions Requiring Member Approval:

(1) Amendment of our CC&Rs to eliminate any separate “project” accounting, **and**

(2) One-time special assessment on P41 owners to equalize reserve fund balances.

If either of these is not approved by the required vote of members, the financial merger will not be implemented (no amendment of CC&Rs and no special assessment).

Required Levels of Member Approvals

(1) Amendment of CC&Rs must be approved by a majority of all 186 members (i.e., 94 or more “yes” votes, one vote per manor)

(2) The special assessment must be approved by both (1) a majority of all members who vote (both P40 & P41), and (2) a majority of all P41 members who vote (assuming a quorum is achieved in both cases)

Example of vote on special assessment: if 150 members vote (90 from P40 and 60 from P41), then “yes” votes will be required from (1) at least 76 of all members who vote, and (2) at least 31 of the P41 members who vote.

Member Vote Process

- Ballot packet for secret member vote mailed to members on July 28
- Members must return completed ballots to Inspector of Elections by 11:00 am, September 5 (**Outer return envelope must be signed by voting member**)
- Votes counted by Inspector of Elections at open meeting on September 5 at 1:00 pm in GRF Boardroom, Gateway Center

What Happens If Members Approve?

- The special reserve assessment will be levied on P41 owners on November 1, 2023 (with option to pay over 12 months)
- A single, combined budget will be prepared for 2024, which you will receive in November
- A single, equal monthly coupon will be assessed on all Mutual 40 owners starting in 2024

Impact of Merger on Coupons

- Future coupons will keep increasing to cover increased insurance & other costs
- BUT, coupons for all Mutual 40 owners will be lower with a merger than without a merger (lower audit and administrative expenses, savings from more efficient rehab scheduling, greater investment income)
- AND, most importantly, we finally create a single, cohesive community

Comments from Others?

- Directors
- Finance Committee members
- MOD Director, CFO
- Legal counsel

Additional Member Communications

- After this meeting, this presentation will be available on rossmoor.com website, under “For Residents/Mutuals/Mutual 40 – Useful Information”
- For members unable to attend this town hall, we are planning a zoom meeting to repeat this presentation
- Small neighborhood meetings are being organized by directors to discuss and answer questions
- Directors are always available to answer questions and concerns

Member Questions and Comments

- Most important decision we've made since decision to leave Third Mutual
- Please ask any director about any questions or concerns you may have.
- PLEASE VOTE!!!!!!!!!!!!!!!!!!!!!!