

# **M70 Town Hall Meeting**

**October 4, 2019**

# Agenda

- Coupon Components
- Understanding the Operating Fund & Reserve Fund
- 2020 Coupon
- Paul Donner Comments
- Questions & Answers

***Copy of this presentation can be found on-line at  
Rossmoor.com, For Residents Tab, Mutuals Tab then M70 then  
look under Miscellaneous-Town Hall Presentation***

# 2019 M70 Monthly Coupon

Money from your coupon is divided into three areas of expenses

<b>Golden Rain Foundation (GRF) includes ComCast</b>	<b>\$281</b>
<b>Operating Fund</b>	<b>\$337</b>
<b>Reserve Fund</b>	<b>\$257</b>
<b>Total Coupon</b>	<b>\$875</b>

# Think About Your Prior Home Budgets

## Day to Day Expenses

- Household & Property Insurance
- Utilities
  - Water
  - Trash Pick-up
  - PG&E
- Yard Maintenance
- Cleaning Services
- Property Taxes

## Major Expenses

- New Roof
- New Windows
- Replace water heater, furnace or air conditioner
- New Garage Door
- Painting the House
- Repairing your driveway

**State Law (Davis Stirling Act) Requires all HOAs to Budget in the following way, and the money for each fund must be kept separate!**

***Operating Fund\****

- Day to Day building maintenance & minor repairs
- Landscaping Maintenance
- Utilities: PG&E, Water, Trash
- Insurance
- MOD Fee
- Working Capital-Cash to pay for next year's insurance

\*Funds/income supplied by the Operating Fund portion of your total Monthly Coupon.

***Reserve Fund\****

- Major Building Repairs/Replacement
- Garage Doors
- Landscaping Rehab/Renovations
- Roofs & Roof Tiles
- Asphalt Replacement
- Replacement Gutters/Downspouts
- Painting
- Stucco/ Wood
- Patio & Balcony Decks

\*Funds/income are supplied by the Reserve Fund portion of your total Monthly Coupon.

# Operating Fund & Reserve Fund Summary

## State Law (Davis Stirling Act)

- Requires us to have two separate funds. The funds cannot be intermingled
- Each fund must provide enough income and cash to pay for the legally defined expenses in each separate fund.
- *Our success as a homeowners' association is measured annually by auditors on our performance of both funds.*

# M70 Coupon Component Summary

	Total 2019 Monthly Coupon: \$875		
	Operating Fund	Reserve Fund	GRF
Monthly Coupon Component	\$337	\$257	\$281
Income	From OF Component of Monthly Coupon	From RF Component of Monthly Coupon	From GRF Component of Monthly Coupon
Expenses	Day to Day Operating Expenses	Major Repairs / Replacements /Renovations	ComCast, Buildings, Golf Course, Fitness Center, Pools, Tennis Courts, etc.

# How We Measure Our Financial Health?

- Working Capital: Cash on hand in the Operating Fund throughout the year for expenses
- Year's End Summary in Each Fund:
  - *Excess*: Our Income exceeds our expenses
  - ***Deficit*: Our Income is not sufficient to meet our expenses**
- *Year's End Cash Position for each fund*: Cash left in the **Operating Fund** and in the **Reserve Fund**
- Ending Fund Balance in both the Operating Fund and the Reserve Fund defines each fund's Equity/Net Worth at the end of the year.



# If an Operating or Reserve Fund has a deficit at year's end, why do we still have cash?

- Build up of cash is prudent when there are large maintenance projects requiring more cash expenditure than normal. In the **Operating Fund**, for example increased water expenses during drought years, or in the **Reserve Fund**, for example asphalt replacement.
- A deficit occurs when income (from our Monthly Coupons) is not sufficient to cover a year's expenses.

# Year-End Estimate for 2019

(based on Jan-Aug Expenses and estimated Sept-Dec expenses)

## Operating Fund

Income	729,859
Expenses	763,139
<b>Deficit/Operating Loss*</b>	<b>33,280</b>
<b>Ending Fund Balance-deficit</b>	<b>49,898</b>
Ending Cash Position	91,922

\*Caused by larger than expected increase in Insurance premium

## Reserve Fund

Income	471,617
Expenses	507,088
<b>Deficit/Operating Loss*</b>	<b>35,471</b>
Ending Fund Balance	882,441
Ending Cash Position	847,272

\*Deck Repairs, Dry Rot & Wild Fire Abatement

# Operating Fund

## 5 Year Trend

Category	2015	2016	2017	2018	2019 Forecast	5 Year Total
<b>Annual Deficit</b>	<b>8,316</b>	<b>27,782</b>	<b>60,858</b>	<b>18,622</b>	<b>33,280</b>	<b>148,858</b>
<b>Ending Fund Balance</b>	<b>90,643</b>	<b>62,861</b>	<b>2,003</b>	<b>16,619</b>	<b>49,898</b>	
<b>Borrowings from Reserve Fund</b>	<b>4,225</b>	<b>40,000</b>	<b>0</b>	<b>125,000*</b>	<b>70,000*</b>	
<b>Ending Cash Position</b>	<b>106,920</b>	<b>110,938</b>	<b>11,048</b>	<b>147,567</b>	<b>91,922</b>	
<b>Coupon</b>	<b>764</b>	<b>789</b>	<b>820</b>	<b>845</b>	<b>875</b>	
<b>* Borrowing Not Paid Back</b>						

# Reserve Fund

## 5 Year Trend

Category	2015	2016	2017	2018	2019 Forecast	5 Year Total
Annual Excess/ <b>Deficit</b>	<b>202,906</b>	44,058	<b>419,764</b>	273,405	<b>35,471</b>	<b>340,678</b>
Ending Fund Balance	1,020,213	1,064,271	644,507	917,912	882,441	
Loans to Operating Fund	4,225	40,000	0	125,000	70,000	
Ending Cash Position	1,062,854	1,078,020	786,592	810,855	847,272	
Coupon	764	789	820	845	875	

# 2020 Operating Fund & GRF

## Top Expense Increases per Manor per Month

Category	2019 Budget	2020 Budget	% Increase
Insurance (Includes Mutual Shared Deductible)	55	97	77.3%
Utilities (PG&E, Water & Trash Pick Up)	88	103	16.8%
Building & Public Works Maintenance	43	48	12.4%
MOD Management Fee	50	52	4%
GRF (includes ComCast)	281	285	5%

# Reserve Fund

## Large Upcoming Projects

<b>Projects</b>	<b>Years 2020-2024</b>	<b>Years 2025-2029</b>
<b>Paint Stucco &amp; Wood*</b>	<b>930,000</b>	<b>186,000</b>
<b>Patio &amp; Balcony Deck Repairs &amp; Recoating</b>	<b>495,000</b>	<b>495,000</b>
<b>Asphalt Replacement</b>	<b>316,000</b>	<b>316,000</b>
<b>Landscaping Renovations</b>	<b>172,500</b>	<b>172,500</b>
<b>Gutters &amp; Downspouts</b>	<b>88,400</b>	<b>353,600</b>
<b>Roof Tile*</b>	<b>-</b>	<b>760,400</b>
<b><i>Subtotal</i></b>	<b><i>2,001,900</i></b>	<b><i>2,283,500</i></b>
<b>Other projects</b>	<b>861,665</b>	<b>441,960</b>
<b><i>Total</i></b>	<b><i>2,863,565</i></b>	<b><i>2,725,460</i></b>
<b>* Project extends beyond 2029</b>		
<b><i>Garage Doors completed 2020</i></b>		

# ***Why We Must Act Now***

*MOD has a fiduciary responsibility to advise M70 Board of prudent practices. M70 Board has responsibility to act prudently, and improve our financial health now.*

## **Operating Fund**

There is a **\$510,208 Cash Shortfall for 2020** comprised of:

- \$195,000 Reserve Fund Borrowings,
- 2020 Insurance Expense, estimated at \$200,208,
- Need \$115,000 Two Months Working Capital,
- All totaling: \$510,208 or \$3,010 per manor.

NOTE: Fiscal soundness requires no operating losses in any one year. Operating losses in the Operating Fund over the past two years required borrowings which have yet to be repaid, resulting in a deficit net worth.

## **Reserve Fund**

Recent annual coupon increases have not kept pace with adequately funding current and upcoming required projects. This situation has resulted in having to postpone projects or project completions. If this trend continues it could result in lower property values.

# M70 Financial Goals

To be considered healthy and to protect our home values, we need to address improvements in both Operating & Reserve Funds:

- **Operating Fund Goals:**

- Fiscal soundness requires no operating losses in any one year.
- Eliminate the current Deficit Ending Fund Balance caused by higher than expected expenses
- Repay the \$195,000 of Reserve Fund Borrowings to cover our cash shortfall from prior years
- Build Up Working Capital (Cash on Hand)-**MOD's standard** for well funded and performing Mutuals, defined by:
  - 2 months Working Capital (Operating Expenses **AND**
  - Cash on Hand to pay for Insurance Premiums



# M70 Financial Goals Continued

- **Reserve Fund Goals:**
  - Achieve a favorable Helsing Audit Opinion
  - Have sufficient income and cash to address rather than defer projects

# These goals can be achieved through three different options

**Option A- No special Assessment but with larger monthly coupons**

**Option B – Special Assessment with monthly coupons less than Option A**

**Option C- Smaller Special Assessment with monthly coupons higher than Option B**

**Details coming up...**

# Financial Goals Methodology

Unanticipated events and costs increases have led us to adopt a more conservative planning for our future.

- Developed planning model incorporating estimated increased expenses over five years comparing 3 options to project coupon increases from 2020-2024.
- Compared each option for effectiveness and impact on homeowners over time.
- Reviewed methodology with MOD Staff-Paul Donner, Rick West & Jo Ann Cooper.
- Factored in latest Helsing Report on our Reserve Fund Projects.

# Anticipated Increases in M70 Expenses 2020-2024

## 1. Operating Fund:

- a. Expenses will increase by 8% per year, (utilities, landscaping, building & public works maintenance, etc.. except for insurance).
- b. M70 Insurance costs will increase by 15% per year and Rossmoor Mutual Shared Deductible insurance expense \$6,000 per year.
- c. Need to increase allocation for working capital, necessary to ensure we have cash on hand to pay for expenses without having to borrow from the Reserve Fund.

2. GRF expenses anticipated increase by 5% per year.

3. Reserve Fund coupon component anticipated increase by 6.4% to 10% for 2020-2024.

***Note: Anticipated Expenses do not include Unforeseen Events, Changes in the Law or Extraordinary Cost Increases***

# ***Three Options to Achieve M70 Financial Goals***

- **Option A Plan = Highest Annual Increases of Monthly Coupon Plan 2020-2024:**
  - \$70,000 borrowed debt repaid by December 2019
  - Repay \$125,000 borrowed debt 2020,2021,2022,2023,2024
  - Accompanied by higher Coupons in years 2020-2024
  - Achieve compliance with MOD Working Capital Standard by end of 2022
- **Option B Plan = \$3,000 Special Assessment in January 2020 *plus lower monthly coupon increases than Option A.*** Achieve all of financial goals by end of 2020.
- **Option C Plan = \$2,500 Special Assessment in January 2020 *plus slightly higher monthly coupon increases than Option B.*** Achieve all financial goals by end of 2020.

# Option A: Highest Monthly Coupon with no Special Assessment-5 Year Forecast

Year	Estimated Coupon	% Increase	\$ Increase
2019	875		
2020	1,017	16.3%	142
2021	1,087	6.9%	70
2022	1,182	8.7%	95
2023	1,276	8%	94
2024	1,338	8.8%	62

- **By end of 2019 repay \$70,000 RF loan**
- **RF 5 Year Repayment of 2018 RF borrowing:**
  - \$20,000 in 2020, 2021, and 2022.
  - \$30,000 in 2023 and
  - \$35,000 in 2024.
- **Because cash cushion will not be fully funded until end of 2022 we will still have short term RF borrowings in 2020, 2021 and 2022. Each borrowing will be fully repaid in year borrowed.**
- **MOD Work Capital Standard will be achieved in 3 Years.**
  - 2020 will have next Yr.'s Insurance Premium and 1 mos. Working Capital.
  - 2021 will have next Yr.'s Insurance Premium and 1.5 mos. Working Capital.
  - **2022 and thereafter will have next Yr.'s Insurance Premium and 2 mos. Working Capital**
- **No year has an OF Deficit.**
- **Achieve positive Ending Fund Balance in OF by 2020**

# *Option A -- Pros & Cons*

## *Pros*

- No Special Assessment
- Our coupon becomes more compatible with similar Mutuels and may still be slightly lower
- Allows greater flexibility in moving forward with RF projects (e.g. garage doors, stucco, painting, etc..)

## *Cons*

- Highest monthly coupon increase from 2020-2024
- Will still need short term Reserve Fund borrowings 2020, 2021, and 2022 until Operating Fund cash builds up

# Option B \$3,000 Special Assessment with Estimated Coupon Increases

and

# Option C \$2,500 Special Assessment with Estimated Coupon Increases

## Option B

Year	Coupon	SA	% Coupon Increase	\$ Coupon Increase
2019	875			
2020	947	3,000	8.3%	72
2021	1,032		9%	85
2022	1,121		8.6%	89
2023	1,228		9.5%	107
2024	1,349		9.9%	121

## Option C

Year	Coupon	SA	% Coupon Increase	\$ Coupon Increase
2019	875			
2020	947	2,500	8.3%	72
2021	1,032		9%	85
2022	1,136		10.1%	104
2023	1,243		9.4%	107
2024	1,364		9.8%	121



# *Options B & C- Pros & Cons*

## *Pros*

- Achieve firmer financial footing in one year.
- Allows immediate required cash to OF
- Lower monthly coupons than Option A plan
- Immediate influx of cash in RF. Repayment of \$195,000 borrowed RF

## *Cons*

- Immediate cash out of pocket of \$2,500-\$3,000

# Monthly Coupon Costs Comparison 2020-2024

Year	Option A/ No SA	Option B/\$3,000 SA	Option C/\$2,500 SA
2020	\$1,017	\$947	\$947
2021	\$1,087	\$1,032	\$1,032
2022	\$1,182	\$1,121	\$1,136
2023	\$1,276	\$1,228	\$1,243
2024	\$1,388	\$1,349	\$1,364

**Option A: Total cash paid out by a manor owner: \$71,395**

**Option B: Total cash paid out by a manor owner: \$71,142**

**Option C: Total cash paid out by a manor owner: \$71,182**

# Final Conclusion

- No real significant difference in homeowners' total payments over 5 years; mostly a matter of timing.
- It's a balance of deciding when we want to achieve our financial goals with homeowners' need to budget for coupon increases.
- **2020 Coupon-M70 Board Decision: Option A**
  - **No Special Assessment**
  - **\$1,017 total monthly coupon beginning January 1, 2020:**
    - GRF \$295
    - Operating Fund \$449
    - Reserve Fund \$273

# Paul Donner, Director, Mutual & Trust Operations (MOD) Comments

# Questions & Answers

**Copy of this presentation can be found online at [Rossmoor.com](http://Rossmoor.com), For Residents Tab, Mutuals Tab then M70 then look under Miscellaneous-Town Hall Presentation**