

Assignments by TD Board to Finance Committee

At its May meeting, the Tahoe Donner Board assigned the following four projects for review by the Finance Committee. Corey Leibow, Mike Salmon and Art King met on June 7th to discuss the Committee's initial response and plan for each of these by the FC. These steps are listed below. We'd like them to be discussed at our June FC Committee meeting and hopefully, have the group come up with and vote on a consensus for the plan. This plan will then be forwarded to the Board.

- **Elasticity of Demand Pricing Models** – historically Tahoe Donner has focused on growing revenue through pricing which would place the Association as a high volume low price contributor. The intent here is to 1) explore surge pricing for high volume seasonal holidays for both guests and the public and to determine the relationship between price and volume in the Association. Specifically, the Committee is being asked to develop pricing models that would focus on a higher level of pricing while maintaining a strong service quality and to show the impact on volume that might transpire.

Finance Committee's Response and Plan - Elasticity pricing may be fairly easy to understand at a high level, but the details of implementing are very difficult. As we reviewed the request we weren't sure exactly what the goals and objectives of the Board were. If there are specific amenities that the Board was interested in pursuing, that information would be good to pass on to the FC. Were they thinking that this would include public only, or would the pricing affect members and guests? Was the Board just looking for higher pricing or are they interested in lower pricing also, as demand for amenities at certain times decreases? What criteria and weight would be used to measure success or failure of this project (i.e. increase in volume/increase in revenues, customer responses/satisfaction)? The FC would like more clarification.

In the meantime, we will ask TD management and staff to identify one amenity, where price elasticity might be a viable option. An example could be downhill skiing during the holidays. The objective would be to identify the amenity; build the model; test it during the upcoming season and then report back to the Board afterwards. Based on the results, the Board can decide if they'd like to expand or cancel the program. We believe the model would be ready for review by the Board no later than September.

Specific to Public Rates and Peak Periods. We believe that this subject is primarily applicable to Downhill Ski and Cross Country, and Snowplay. Golf has such minimal public play its not worth addressing. F&B pricing member different from public could also be reviewed.

Perhaps a Strategic Guidance item for the Board to direct management in preparing 2019 Budget draft could simply be: For pricing changes, a) aggressively position Public rates during peak periods to improve member/guest experience, while not lowering overall revenue generation. B) at all amenities, position pricing to improve NOR beyond the CA minimum wage and other cost increases, as applicable.

- **Fiscal Year change to October 1 from January 1**- the committee and management is being asked to review the impact of changing the fiscal year so as to capture the full seasonality of our amenities. At the current time the results for areas like Cross Country and Downhill ski are spread across two fiscal years and thus gives an incomplete picture of amenity profitability. It would not be the intent to change when member assessments are due but rather to show a more complete financial picture especially in years when snow fall may be strong or weak.

Finance Committees Response and Plan - This has been a topic of discussion many times over the prior years. Always ending with the conclusion that the cost changing the year end was not worth any potential benefit of a different year end. In 2001, Dave Gravell, the In-House council for TD wrote an excellent memorandum to the Board regarding this issue. Hopefully, all members of the current TD Board have seen and read this memo. The FC does not believe anything has changed since this document was prepared. However, our plan to address this project would be to forward this memo, and any other relevant documents, on to our outside auditors, Gilbert Associates, for review and comment by their tax department. Mike Salmon will be the point of contact with the auditors. We believe this can be accomplished in time for our July Committee meeting. The FC will review their response and provide our conclusion to the Board.

- **Modeling the impact of holding annual member assessments to a range of no increase to the CPI plus no greater than 1 percent**- the intent of this exercise is to more strategically forecast the operating income that would need to be generated by members to supplement the overall loss of the Association each fiscal year. Members (current and future) would then have a stronger understanding of what may be required over a 5-year period. Further the Association would have a stronger understanding of capital expenditure levels that could be expended. The net result would be a stronger focus on longer term financial planning and a continued move away from the potential for special assessments.

Finance Committees Response and Plan – While we believe we understand the current Boards desire to keep Annual Assessments as low as possible in future years, we aren't sure what they want with this exercise. Preparing a five-year schedule with a range of potential AA increases ranging from zero to CPI plus 1%, is simple to prepare. Anyone on the TD accounting staff can perform this task. If there is more that is desired, then we would like additional clarification. What are the Boards Goals and Objectives for this exercise? What does the Board intend to do with this information? To remind the Board, the assessment has been flat for 3 years now and 5yr CAGR is 3.5% for operating, 6.1% for capital, and 4.8% overall; which approximates a cpi+1% benchmark.

The request states “Further the Association would have a stronger understanding of capital expenditure levels that could be expended.” This information is already clearly provided in the Annual Budget details, for both Replacement Reserve Fund and Development Fund (budget year and future years). So, there is no need for any additional work in this area.

The request also mentions that the net result would be a “continued move away from the potential for special assessments”. If the intent is to restrict future Annual Assessments to below what is needed to effectively run TD, then we believe this would increase the potential of special assessments. TD has been down this road before.

Perhaps a Strategic Guidance item for the Board to direct management in preparing 2019 Budget draft could simply be: Assessment increase of no greater than 5% for 2019, work within this guiding parameter.

Once the FC receives this additional information from the Board, if there is still a project to perform, then we would be able to give the Board a timeline for completion.

- **Develop allocated overhead model for further association/amenity cost planning efforts** - per the board approved initiative at the April Meeting, the finance committee would work with management in determining costs that are strictly related to maintaining a Homeowners Association and those that relate to maintaining amenities in time for the fiscal 2019 business plan. The intent is to fully understand, in a non-political manner the true, fully loaded profitability of our amenities and provide greater insights into areas of improvement. Further the HOA would be separated and compared to the cost of what other HOA's incur to maintain their Associations in compliance with all applicable laws.

Finance Committees Response and Plan – This change in accounting reporting was directed by the Board to the TD accounting staff in May and is already in progress. Per Mike Salmon, we can have a draft of his proposed allocation to review in July, with the final ready for the Board review in August. With this and the current trend of increased demands on detailed data/financial information by current board/committees, it is very likely that there is a need for an additional full time position needed to be added to the accounting and finance team.

Once the results of the allocation have been reviewed by the FC and the Board and before any final decision, the FC would like the Board to be able to articulate **why** they want this type of information, **how** it will improve TD's financial performance, **what** they will do with it and **how** it will benefit TD members. It is unclear to us why the allocation of overhead and capital costs will benefit TD members. Perhaps the benefits over the costs for this will become clearer after we have reviewed the results.