

Background

- Recall that Director Connors presented two draft charters to us at the December meeting. The first charter would create a new committee (the “AB2912 Committee”) to handle the additional compliance requirements created by California AB 2912. AB2912 became effective 01/01/2019 and changed sections 5500 and 5501 of the CA Civil Code (popularly known as the Davis Stirling Act). Section 5501 imposes financial review obligations on an HOA’s Board of Directors in order to prevent financial malfeasance by those responsible for the financial affairs of CA homeowners’ associations.
- The second charter would significantly amend the role and responsibilities of the current Finance Committee (“FinCom”) by creating a new committee (the “Financial Projects Committee”) thereby effectively superseding the current Finance Committee Charter.

Analysis and Action to Date

- Pursuant to the motion passed at the December 2019 FinCom meeting, John Dundas, Jeff Bonzon and Steve Mahoney have held two meetings with TDA Directors Connors and Koenes to discuss the proposed charter changes presented to the FinCom in mid-December. (A third meeting is scheduled for January 21, 2019.)
- In the meetings with Directors Connors, Koenes and DFA Salmon we have made the following observations with respect to the AB2912 Committee charter:
 - We agree in principle with the establishment of a separate committee of the TDA Board of Directors to handle the monthly review tasks imposed by CA CV5501 as is expressly permitted by the legislation.
 - We have noted that the role of this committee is essentially that of a backward-looking compliance group.
 - We have noted that there is no state requirement to have non-Board of Director members of this committee. As a matter of good practice, we have had at least one and sometimes up to three FinCom members participate in the monthly 5501 reviews conducted in 2019.
 - We have asked that the powers invested in the new committee by the charter address only the requirements of the legislation and not duplicate the role and or responsibilities of the current FinCom.
- With respect to the proposed changes to the FinCom charter and/or the structure and role of the committee, we have made the following observations:
 - We have objected strenuously to the effective deletion of the FinCom’s important independent member oversight role of the TDA financial affairs by, among other things, eliminating the FinCom’s role in (i) reviewing monthly financial results, (ii) analyzing the

adequacy of our capital funds, (iii) contributing to the development of the annual budget, and (iv) reviewing TDA's financial policies including management of the circa \$20MM investment portfolio.

- The proposed changes transform the FinCom to a special projects analytical resource whose mission and mandate can be easily manipulated by as few as two Board members. If the changes go through as proposed we will lose the opportunity to capture the power of transparency through member engagement and continuity.
- We have agreed that the FinCom should not be doing management's job nor creating more work for the management team.
- We have agreed to consider refinements to the FinCom structure to make processes more effective and efficient for the whole organization. Items under consideration include reducing the size to 8-10 members, reducing the frequency of financial and operating reviews (moving to quarterly or bi-monthly), codifying the role of sub-committees that might work on special projects and include non-Finance Committee members because of their expertise and interest, etc.
- We have requested a more robust, rigorous and disciplined partnership with the General Plan Committee to vet earlier the funding implications of our Association's capital projects.

Next Steps

- We have separately circulated a draft amended FinCom charter that reflects most if not all of the concerns and observations noted above.
- John and I would welcome your thoughts and observations on the two charters and the process pursued so far so that we can advance the discussions and be in a position to have charters approved at the January 31 TDA Board meeting.
- The next discussion with Directors Connors and Koenes will take place on Tuesday January 21. Please pass along any feedback or suggestions by Sunday evening January 19th, if possible.