

Speaker Notes  
2019 Budget Plan Z ver. 2 Presentation  
Board of Directors Meeting  
December 4, 2018

Good afternoon everyone...

I am Roger Myers and I will present the ad hoc 2019 budget reconciliation committee's 2019 Budget Plan Z ver. 2. I'll refer to it as Plan Z throughout my presentation.

This presentation will be posted on the GVR website under the Governance tab within a few days.

## Slide 2

### Budget Development Process:

GVR's budget process for the next fiscal year (Jan. – Dec) starts in June of the current year and culminates with a GVR staff budget presentation to the Fiscal Affairs Committee ("FAC") during its September meeting. GVR staff makes FAC requested changes and the budget is reviewed again by the FAC. If necessary, this process is iterated until FAC approves a budget and recommends it to the Board of Directors ("Board"). Typically, the Board reviews the budget during its September meeting. Article III, Section 4 of GVR's Bylaws state: "On or before December 10th of each year, the Board of Directors shall announce the schedule of membership dues and the Operating and Capital Budgets for the next calendar year."

### Slide 3

#### Brief 2019 Budget History:

In the interest of increasing participation and engagement of non-FAC Directors and GVR members, the FAC held three (3) 2019 budget reviews: July, August and September. In July revenue was reviewed, in August expenses were reviewed and in September capital spending budgets were reviewed. These three (3) reviews allowed for more in-depth discussion.

During the August and September FAC meetings, questions about the calculation of the 2019 budget member dues increase and calculation of historical member dues and expense growth arose.

In response, GVR staff created seven (7), A thru G, alternatives to the original 2019 budget with no dues increase, increases in non-dues revenue and expense reductions. The FAC could not agree on any one of them.

## Slide 4

GVR staff reworked the 2019 budget again. It created Plan B and Plan C which were presented to the FAC. The FAC approved Plan B with annual dues of \$504, a 2.2% increase from 2018, instead of \$508, a 3.1% increase over 2018, and made other revenue adjustments. During the September Board meeting Plan B was rejected.

The FAC approved Plan C with annual dues of \$500, a 1.42% increase over 2018. During the October Board meeting, Plan C was rejected.

At this point, the Board seemed hopeless deadlocked on the 2019 budget. Following the Plan C vote, to reconcile its budget differences, the Board formed the Ad Hoc 2019 Budget Reconciliation Committee (“ad hoc committee”). It consists of four (4) Directors and one CEO appointed GVR staff person: Director and chairperson Denise Nichols, Director Roger Myers, Director Charles Sieck, Director Tom Sadowski and GVR appointed staff Kent Blumenthal.

## Slide 5

The ad hoc committee met four (4) times: November 5, 7, 9 and 28. It worked diligently to reconcile 2019 budget differences.

Plan Z ver. 2 is the result and it's being presented to the Board today.

### GVR Staff Kudos:

**Special kudos to** GVR staff lead by Cheryl Moose, CFO, and David Webster, Accounting Supervisor, have produced eleven (11) 2019 budget versions – the original 2019 budget, versions A thru G, Plans B and C and Plan Z ver. 2 – since September 2018. It has been a contentious and stressful process. Thank you for your patience and hard work!

## Slide 6

### 2019 Budget Plan Z ver. 2 Highlights:

A Plan Z motion will be presented in a few minutes.

The following general agreements form the framework of the Plan Z budget and they are incorporated in the motion. However, I'd like to go over them before getting into any further discussion

#### General Agreements:

One-time no member dues and no Life Care dues increase over 2018 dues of \$493.00. The 2020 budget may increase member dues and Life Care dues.

The difference between Plan Z total revenue and member dues/Life Care dues revenue will be made up by increases in non-dues revenue like NMCF, Initial Fee, Guest and Tenant Card fees, etc.

Plan Z total revenue of \$11,479,00 is 1.0% less than the original 2019 budget but 4% greater than 2018 budget. 2019 expense adjustments should not negatively impact GVR employees.

## Slide 7

Plan Z total expenses of \$10,535,462 are 2.0% less than the original 2019 budget and 1.7% less than the 2018 budget.

Total expenses includes \$50,000 to hire an Assistant Facilities Project Planner to assist in resolving the facilities planning workload with a personnel requisition to be executed immediately.

CEO will determine Plan Z expense allocation adjustments as allowed by GVR's CPM without Board micromanagement but reduction in the level of GVR services is not permitted.

Plan Z adds \$105,926 over the original 2019 to non-reserve capital budget for a total \$513,926. GVR has deferred and delay many maintenance and repair projects evidenced by the original non-reserve capital budget being cut by \$348,000 from \$756,000 to \$408,000.

## Slide 8

The ad hoc committee recognizes that GVR has significantly fallen behind in reserve study maintenance, repair and replace work as evidenced \$1.8 million in 2019 maintenance, repair and replace items. The growing number of postponed projects must be seriously attacked and reduced. **An Assistant Facilities Project Planner position was added to the Plan Z budget to make this and reserve study maintenance and repair jobs happen.**

If 2019 actual expenses appear to be exceeding the Plan Z total expenses and an operating deficit may be occur, the CEO may request the Board of Directors to reallocate up to \$100,00 of the 2019 non-reserve capital budget to reduce it to no less than \$408,00 which is the original 2019 budget non-reserve capital budget amount. Such request can be made within 30 days after the end of fiscal quarter with a detailed justification including a Projected Fiscal Year-End Statement of Activity.



## Slide 9 – Page 1

Before I get into the Plan Z budget numbers, I like to apologize for the tiny print.

It is often difficult to understand the budget because GVR has “Above-The-Line” and “Below-The-Line” expenses.

Operating expenses are shown on the Statement of Activity.

These are the day-to-expenses at the top of budget – Revenue through Surplus (Deficit) – above the blue I drew here.

But, they are not the only expenses GVR must budget for.

GVR spends money for things like truck, cars, fitness equipment, carpeting, parking lot paving and sealing etc. which are expensive and they have long “useful lives.” They are accounted for on the Statement of Financial Position as Fixed Assets – below the blue line.

## Slide 9 – Page 2

Almost all of GVR's capital spending projects are funded by GVR's reserve accounts not operating cash and not shown in this budget but they have separate capital budgets

Non-reserve capital projects and club requests are shown here because they are paid out operating cash not reserves.

The MRR Reserve contribution is determine by GVR's annual reserve study and the Initiatives Reserve contribution is now determined by a CPM formula and they must be paid from operating cash. They are shown here.

Let's look at some individual budget line items.

As I mentioned, member dues and life care dues stay at the 2018 rate of \$493.

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Member dues revenue of \$6.7 million is \$203,895 or 3% less than the original 2019 budget and only \$28,593 or 0.4% above the 2018 budget.

Life Care dues and card fees of \$823,640 is \$7,000 or 0.8% less than the original 2019 budget but \$126,623 or 18.2% above the 2018 budget.

Other non-dues revenue must make up most of the lost member dues revenue of \$204,000.

NMCF and Initial Fee revenue of \$2.7 million is \$72,151 or 2.7% over the original 2019 budget and \$314,768 over the 2018 budget

Programs revenue of \$442,000 is \$15,000 or 3.5% greater than the original 2019 budget and \$50,851 or 13% more than the 2018 budget.

## Slide 9 – Page 4

Instructional revenue of \$441,450 is up \$15,000 or 2.3% over the original 2019 budget.

Bottom line, Plan Z total revenue of \$11,479,000 is \$186K or 1% less than the original 2019 budget, \$448,235 or 4.1% greater than the 2018 budget and \$235,376 or 2.1% above the Projected 2018 YE Actual Revenue.

Plan Z total expense are \$10,535,462. As mentioned in the general agreements, the CEO has discretion to allocate money within this amount except:

- (1) hire an Assistant Facilities Project Planner,
- (2) no financial impact to employees and
- (3) no reduction in GVR services.

The increased NMCF and Initial Fee revenue required a 2019 Initiatives Reserve contribution of \$542,488 instead of the original 2019 budget amount of \$527,950.

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Plan Z allowed an increase of \$105,926 to non-reserve capital projects to reduce deferred spending.

The Plan Z budget presented here is summarized in the motion.

## Slide 10

Year-over-year total revenue growth slowed to minus 1% in Plan Z.

Programs and Instructional revenue has been growing nicely even though the amounts are not large.

Due to a 2016 change in investment policy 2016-Over-2017 interest income grew significantly – 184% - but has leveled off recently.

## Slide 11

Member dues are declining as a percent of total revenue. From 66.4% in 2015 to 58.4% for 2019 Plan Z.

NMCF and Initial Fee contributing much more percent of revenue. From 20% in 2015 to 23.5% for Plan Z. Note this change!

Non-dues revenue contributes a higher and higher percentage of total revenue.

However, non-dues revenue is less predictable than member dues revenue.

The next two slides demonstrate what I am talking about.

## Slide 12

As mentioned, NMCF and Initial Fee revenue account for 23.5% of Plan Z revenue. In 2015 that percent was 19.6%.

These fees are tied directly to GVR member housing market – resale and new home sales.

September 2018 lowest home sales on this chart.

A lot of people believe the housing boom is slowing.

Green Valley resell days-of -inventory is extremely low.



## Slide 13

The blue column – 2018 – has been above of 2016 and 2017 until recent months starting July.

This is an important trend to watch!

## Slide 14

Plan Z reverses a recent trend of total expense growth. After subtracting Depreciation Expense, Plan Z total expenses will be down from Projected Year-End 2018 total expenses by \$235K or 2.1%.

## Slide 15

### Plan Z Board resolution