

Considerations for MR&R Funding Targets

Approved for Posting by Chair Crothers 11/13/2019

Our CPM calls for funding levels between 85% and 100%. Bob Browning, our reserve expert says that our present funding level of 66.5% is sufficient. However, our total required funding went up 30% last year and to be able to meet our needs for the next 30 years to repair, maintain or replace our existing assets, we must raise our annual contribution by 4 – 4.1% each year while inflation sits today at about 2%.

Browning gives the following guidelines regarding funding levels: 0–30% Poor; 30-70% Fair; 70-100% Strong. We have enough accumulated surpluses to increase our funding level to the Strong category. Based on Browning's analysis, increasing funding to the 85% level would not significantly change (reduce) the required annual increase in contribution levels.

Recommendations:

1. Change our policy to target funding levels at 75-100%.
2. Encourage increased funding when the real estate cycle is strong so that we will have a cushion when sales are weak.
3. Transfer immediately \$600K, our 2018 surplus, from operations to MR&R. This should bring our YE 2019 funding level to 72.8%
4. If we have another surplus at year end, transfer enough to bring our funding level to at least the targeted 75%.

Are there sufficient funds to make the transfer from operations to MR&R? There are two ways to look at this. Susan Vos shows a 2018 surplus of \$596,193 so that amount should be available for transfer.

As of September 30 we had \$3.5M in our checking account and operational reserves. This month we will transfer in 2Q reserve payments of \$412K and probably 3Q payments of \$510K. \$93K should be moved to Initiatives. The forecasted net cash flow for Oct and November is a negative \$2M. This includes payments for the pickleball center which will be paid back later from our Initiatives fund. As of the end of November we should have approximately \$2.3M in checking and our immediately available operations reserve account.

\$3.5M starting balance

+ \$922K Reserve transfers for 2Q & 3Q

- \$93K transfer to Initiatives

- \$2M net cashflow for Oct/Nov

Ending balance: \$2.329M

This will put us in an excellent position to start 2020 and give us room to make additional transfers to our reserves once our actual surpluses are known.