Considerations for MR&R Funding Targets

Approved for Posting by Chair Crothers – December 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 under 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. The Board authorized moving $600K (the approximate surplus from 2018) to the MR&R fund raising our projected year end 2019 funding level to 72.8%. Based on Browning's analysis, increasing funding to the 85% level would not significantly change (reduce) the required annual increase in contribution levels.

Considerations:

1. Change our target funding policy:
    a. Keep funding at the "strong" level – always over 70%
    b. Rely on Browning recommendation – don't worry about slipping under 70% if he says it is OK.
    c. Target 75% funding as compromise position between Browning recommendation and previous target.
    d. Continue to target 85% funding
2. Encourage increased funding when the real estate cycle is strong so that we will have a cushion when sales are weak. Look at only spending capital income on MR&R, Initiatives or other capital projects
3. Look for ways to spread MR&R funding burdens over multiple years
    a. Model funding levels and impact of compounding at rates greater than inflation
    b. Look for safeguards that limit significant increases in total funding required
    c. Require capital project proposals to include an "impact on MR&R" component

FAC charge:

1. Prepare a set of alternatives with pros and cons for Board decision at the January 29 Board meeting
2. Subcommittee works on analysis
3. Full FAC reviews and adds suggestions at January FAC meeting