Project Borrow - Outline

1) Background – The Reason for this Proposal

As of the beginning of 2021, GVR has 9 projects that have been discussed and planned for by the Planning and Evaluation (P&E) Committee with a price tag of approximately $5M.(1) Some of the projects have been a priority for up to ten years (i.e., dedicated table tennis space). It will take anywhere from 10-12 years for GVR to save the funds within the initiatives reserve to complete all these projects. Unfortunately, space constraints are becoming critical for some clubs and activities, and the delays in beginning projects will only mean space will become a larger issue, and likely final price will be greater when projects are finally started.

2) Background – How did GVR Obtain Facilities in the Past?

Apart from the Pickleball Complex, all major recreational facilities owned by GVR were built over the years by housing developers and deeded to GVR.

The Pickleball Complex was the first major recreational facility to be saved for and paid out of GVR funds. It took over six years from initial approval of the facility to completion, at a cost of some $1.8M. The overwhelming majority of funds came from the Initiatives Reserve and donations. If funds were available at the time of initial approval, the timeline for the process would have been shortened considerably. Conversely, if the funds had NOT been available at construction start, this complex would still be in the planning stages.

3) Background – Who Really Pays for New GVR Facilities?

Developer built facilities were not provided “free” to GVR, they were paid for by the people buying the houses built by those companies. The latest two projects, Canoa Ranch and Las Campanas, were, and are being paid though Initial Fees being forfeited to the developers. Canoa Ranch is now paid off. Las Campanas will not be paid off until the last house is built and sold in those subdivisions that make up Las Campanas.

The available land to expand GVR is extremely limited, so expansion of households within the boundaries of GVR will be minimal. The surrounding area is slowly being absorbed by our neighbor to the north. Since the number of available new homes will be limited, future recreation centers built by developers will not happen. From this point forward, GVR must now rely on themselves to find ways to fund new and updated facilities.

In the end, all the recreation facilities have been paid for by those who have decided to purchase a GVR deed restricted home. Properties built by GVR are paid through the Initiatives Reserve, which is funded by a percentage of the Property Acquisition Capital Fee (PACF) that is charged for every home resale.(2)

In summary, those moving to Green Valley and purchasing a deed restricted home were, and are, the ones paying for all these capital projects. Remember, these projects are being requested by present members, not future ones, so in reality, future residents pay for current members' benefits and facilities.

4) The Present Problem with Building/Buying New GVR Facilities

The current procedure that GVR uses to decide on projects to move forward is not conducive to meeting membership needs in a timely fashion. The steps can be broken down to the following timeline: (this is a nominal timeline, not all projects follow this order)

A) A project is proposed to the P&E committee
B) After discussion and debate, P&E prioritizes the project on their master list, with recommendations to the Fiscal Affairs Committee (FAC) for financing
C) The proposal is handed to Fiscal Affairs for debate on financing. The project could be killed or modified during this step
D) If FAC decides on a funding source, a proposal goes to the full board to both approve the project and the funding. The board could kill or modify the project during this step.
E) If there is not enough money to pay for it, the project will languish in the background and no actual movement will occur
F) In the meantime, a board election occurs and the makeup of the board changes. If a majority of board members are no longer in favor of the project, or, some sort of objection is raised, then in most cases, the proposal goes back to P&E and the process is started over again.
G) Repeat until money is available to pay for the project in full.

If the funds were available immediately upon initial approval by the board, the project would be built. However, with the length of time it currently takes to generate the needed funds to build a project it will have gone through multiple debates and revisions before the first shovel is turned. Delays cost money and members get frustrated with a lack of action.

5) The Proposal

Currently interest rates are at or near historic lows and GVR is in exceptionally good financial health. With zero debt at the present time, GVR is in the driver's seat when it comes to negotiations with financial institutions.

Briefly, our proposal is that GVR should add up all the projects that the P&E Committee has on their table, get a loan to pay for all of it, and get all the projects done as soon as possible, rather than talk it to death over the next decade, as has been happening. Additionally, GVR should pay for the loan 100% through the Initiatives Reserve, meaning that dues increase will NOT be on the table to pay for these projects. If, down the line, GVR wants to pay the loan off in full, the corporation could do so, if it makes financial sense at the time.

Presently, new home sales and resales are generating approximately $2.4M per year, of which $480K goes to the Initiatives Reserve.(3)(4) This is true even for 2020, which did take a small hit in resales due to COVID. This number represents the maximum amount of annual outlay to service the loan.

As an illustration, let us use the P&E plan referenced above.(1) Admittedly, this is a draft and the numbers are not firm, but it can be used to highlight the resources needed to pay for all these projects. If you add up all the numbers on the proposal, the total comes to just over $5M.

Plug these numbers into an amortization calendar(5):

Loan Amount - $5M
Interest Rate – 6%
Term – 20 years
Start Date – Use whatever date that the funds would be needed. The numbers don't change, just the end date.

Press the Calculate button, wait for the gears to stop, and voila!
Monthly Payment - $35,821.55
Full Year Payment - $429,858.60

Please note, the annual payment amount is LESS than the annual contribution to the Initiatives Reserve by almost $50K. This means that GVR should never have to draw down the existing funds in the Initiatives Reserve account, and the balance would increase year over year. This would be true even if the total amount going to the reserved fun dips by over 10% in any particular year.

6) Conclusion

This proposal is doable and presents minimum risk to GVR. Using the Initiatives Reserve to pay back the loans takes dues increases off the table when it comes to capital purchases and improvement. We have also seen that the home sales in Green Valley is stable, so an assumption that the annual contribution to the reserve of $480K is reasonable.

This proposal, or something much like it, would get all those projects that have been hanging in limbo for multiple years finally completed so our Homeowner/Members will have a date certain in order enjoy these amenities.

A final word about debt. In the world of personal finance, debt is justified in some cases (home, car) but even then, it should be kept as low as possible, with the preferred debt load being zero. The corporate world is different. Debt is the lifeblood of many corporations and it acts as an asset multiplier (in financial terms - leverage). A corporation uses other people's money to purchase/build the infrastructure it needs to accomplish a goal, while not drawing down assets it already has. If the assumptions that a corporation uses are realistic, and the corporation leaves wiggle room for things to go not exactly as planned, debt acts to ensure the physical plant is as up to date and as efficient as possible, while not burdening finances in future years. We believe the plan we have outlined does this, and we have nothing to fear from some debt to ensure the maximum number of GVR Homeowner/Members are provided the facilities they expect.

7) Addendum - Member and Club Participation

As mentioned above, capital projects are normally generated from homeowner/member and club requests. It is a way for the Board and the associated committees to get an idea of the needs and wants of the current community. From these ideas the Board Committees work through the various options available to find a solution that satisfy the requests of these groups.

However, there must also be a formal mechanism for buy in by both the membership and the clubs. In the past, the P&E Committee has asked clubs to contribute 10% of the cost of the project. Whether this proposal as outlined is accepted or not, it is our opinion that the clubs and members advocating for, and benefiting from, any capital project should provide extra contributions to the final cost, as they will be the ones using the facilities the most.

Clubs and homeowner/members can use several vehicles to accomplish this goal. The GVR Foundation with their tax-exempt status provides a refuge from taxes. Clubs could also hold fundraisers or garage sales to help in raising the needed contribution.

These donations and contributions will help keep the borrowing to a minimum and provide a sense of pride in the project for members and clubs alike.

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December 18, 2020

References:

(1) Capital Projects Draft 091920.xlsx
(2) https://www.gvrec.org/up/governance/cpm/2020/CPM%2001292020.pdf (see page 31)
(3) https://www.gvrec.org/up/governance/bod/2020/0512/2019%20Audited%20Financial%20Statements.pdf (see page 4)
(4) https://www.gvrec.org/up/governance/cpm/2020/CPM%2001292020.pdf (see page 31)
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