

MEMORANDUM

October 15, 2018

To: Board of Directors

From: B&F Committee

CC: John Bailey, B&F Committee

The Budget & Finance Committee has completed its work with the General Manager on the Reserve Study and is ready to recommend that the Board formally move to receive and utilize the Reserve Study dated September 5, 2018.

The Budget & Finance Committee recommends that the Board direct the General Manager to utilize the Reserve Study in development of the Fiscal Year 2019-2020 Budget. Furthermore, the B&F Committee recommends the General Manager to bring forward to the Board, for consideration of funding in the current Fiscal Year, any Reserve Study items that have been identified to be done this year that are currently not addressed in the budget, on the condition B&F receives a summary of any items that the GM deems necessary with proper rationale.

Summary of 2018 Reserve Study & Related Notes on Major Capital Projects

- The nomenclature “General Reserve” has been changed to **General Replacement Reserve** to more precisely identify the purpose of the reserve funds
- GM Bailey has indicated that the \$496,138 in the reserve study for FY 2018-2019 is adequate to obtain all software needed. B&F agrees currently. **However, we have requested a “quote” from an outsourcer.**
- Per GM Bailey, the latest total estimated costs to complete the second-floor renovation of the Country Club building is \$1,219,803.
 - This estimate may change as bids are received from contractors and final choices are made from the Add/Alternate list
 - The Reserve Study dollars for 2018 contains a larger amount for the second-floor renovation work (\$1,386,585), provided as an **estimate** by the GM.
 - The second-floor renovations now envisioned will result in multi-purpose rooms and facilities that benefit the entire association with benefits to over 62 clubs and committees. (data supplied by GM).
 - **B&F wants to state that the estimates included by the GM are as of September and we believe there would be “bids” submitted prior to Budget completion that would give us a better understanding of the costs.**

- To address the needs for additional space for the Police Department within the Administration Building, GM Bailey will propose that the current building be expanded by approximately 1,800 square feet
 - B&F agrees the Police Department space needs to be addressed. We would need more information to determine the funding.
 - The estimated cost for the Administration Building renovation work under the expansion concept is \$600,000
 - Construction would take place in FY 2019-2020
 - The amount above includes \$50,000 for A&E work to be done in FY2018-2019 and is in the approved budget
 - The Reserve Study identifies \$462,944 for renovation of the Administration Building

Again B&F wants to emphasize the detail for Police and Administration are estimates provided by the GM and are not a final sign off.

- Future bulkhead work estimates may be impacted by where materials would be stored/staged for bulkhead work. B&F made a recommendation pertaining to Bulkheads in our Board Budget Guidance. **(B&F states, there should be no further assessment contribution to the Bulkhead Reserve Account unless there is a viable work plan presented for review and approval.)**
- Roads and Bridges Reserves garnered much discussion
 - All agreed that this reserve is severely underfunded versus the road improvement work needed to be done throughout the community
 - The reserve is currently funded by
 - Casino Funds (\$325,000 per year)
 - State/County funds (\$56,880 most recent)
 - All agreed membership will need to start contributing to this fund annually
 - Funds in the reserve study identified as North Gate Expenditures were thoroughly discussed
 - Even though the State of Maryland says the bridge is structurally sound, OPA staff feels the traffic flow to and from the bridge needs to be studied
 - It could be that the bridge is functionally obsolete as current levels of traffic flow to and from the bridge were not anticipated when it was built
 - If these studies, etc. are pushed out to future years, other needed road work will take its place. B&F made a recommendation pertaining to Roads in our Board Budget Guidance. **(B&F states, there should be no further assessment contribution to the Roads & Bridges Reserve Account unless there is a viable work plan presented for review and approval.)**

Summary of changes from the last printed edition:

The minimum threshold amount has been removed from all three accounts

General Reserve Account

The main information for this account is found on pages 4-13

3% was established as the Anticipated Construction Inflation Factor

2% was established as the Income from Invested Reserve Funds Rate

Removing the Minimum Threshold resulted in the Projected Annual Contribution Escalation Rate to go down slightly, from 4.0% to 3.8%. That change correspondingly changed the funding projections for each year. However, the adequacy of the Reserve Account did not change and remains at 24.08%

Bulkhead Reserve Account

The main information for this account is found on page 4 and pages 66-73

3% was established as the Anticipated Construction Inflation Factor

2% was established as the Income from Invested Reserve Funds Rate

Removing the Minimum Threshold resulted in the Projected Annual Contribution Escalation Rate to go down slightly, from 4.2% to 3.9%. That change correspondingly changed the funding projections for each year. However, the adequacy of the Reserve Account did not change and remains at 17.22%

Roads & Bridges Reserve Account

The main information for this account is found on pages 3-4 and pages 27-35

3% was established as the Anticipated Construction Inflation Factor

2% was established as the Income from Invested Reserve Funds Rate

Based on the 2" mill and replace calculation of \$185,000 per road mile, all of the numbers in this account changed

The Projected Annual Contribution Escalation Rate increased from 3.0% to 6.3%

The adequacy of the Reserve Account as a percentage of full funding went down from 11.74% to 9.56%

The North Gate components were moved to 2034 and 2035. However, that change leaves 2020 and 2021 blank. For now, though, that is okay. As we complete the redevelopment of the Road Program, we will be able to more appropriately disperse the annual spending allocation and update the yearly road component list

Certain detail in this memo was prepared in conjunction with the GM.

If anyone has any questions, please let me know.

I am sending this memo on behalf of the Budget & Finance Committee who signed off on this memo.

*Regards,
John V. Chair B&F*

ATTACHMENTS:

Reserve Study, Revision Issued 9/5/2018 – General Reserve Account

Reserve Study, Revision Issued 9/5/2018 – Bulkheads Reserve Account

Reserve Study, Revision Issued 9/5/2018 – Roads & Bridges Reserve Account