



Cape George Colony Club

BOARD of TRUSTEES

Reserve Funding Work Session, 1

Monday, February 12, 2024, 3 - 5p.m.

Via Zoom and in-person at the Clubhouse

Members are welcome to attend.

There will be a member participation segment when the Board has finished their discussion.



Cape George Colony Club Board of Trustees
Special Meeting Agenda
BOARD WORK SESSION ON RESERVE FUNDING
Monday, February 12, 2024, 3:00 p.m. – 5:00 p.m.
Zoom and in-person at the Clubhouse.

- A. Call to Order – President Betsy Coddington
- B. President’s Comments – Betsy Coddington
- C. Fiduciary Responsibility of Cape George Colony Club Board of Directors – Betsy Coddington. See attached.
- D. What is the ideal target for the percentage of funding for the Reserves? Board discussion.
- E. How can Cape George reserve assessment funding be structured to reach that target?

Three proposals are attached for review and discussion that include changes to the Bylaws:

Proposal 1. Nancy Charpentier, Treasurer. See attached.
Proposal 2. Bart Mooyman-Beck, Vice President. See attached.
Proposal 3. Mark Kochendorfer, representing the proposal of the Finance Committee, which includes Mark, Susan Sanford, and Fayla Schwartz. See attached.
- F. Once attained, how can the Association maintain healthy Reserve Funding balances? Board Discussion.
- G. Suggestions for informing and educating members before submitting a proposal to the membership for a vote. Board Discussion.
- H. Member Participation. Members will have the opportunity to speak, submit questions and comments in writing, at the end of the Board Work Session. Member participation will continue until 5 p.m. or when the President chooses to adjourn the meeting. The topic of Reserve Funding will be on the Study Session agenda, Tues., Feb. 20, 2024. Additional member discussion/education meetings will be held on the topic of reserve funding.
- I. Announcements:
 - Mon., Feb. 19. The office will be closed to observe President’s Day.
 - Tues., Feb. 20, Board Study Session, 3 p.m. in Clubhouse and on Zoom Meeting.
 - Fri., Feb. 23, Board of Trustees Meeting, 3 p.m. in Clubhouse and on Zoom Meeting.

Relevant documents for Reserve Funding Meeting.

Fiduciary Responsibility of Homeowners Association Board of Directors

In the context of the Cape George Colony Club Homeowners Association, the fiduciary is the Board of Directors. The Board is placed in a position of trust and authority, and it is their legal duty to act in the best interests of their beneficiary, the HOA.

RCW 64.34.308 (<https://app.leg.wa.gov/rcw/default.aspx?cite=64.34.308>)

Board of directors and officers.

(1) Except as provided in the declaration, the bylaws, subsection (2) of this section, or other provisions of this chapter, **the board of directors shall act in all instances on behalf of the association.** In the performance of their duties, the officers and members of the board of directors are required to exercise: (a) If appointed by the declarant, the care required of fiduciaries of the unit owners; or (b) if elected by the unit owners, ordinary and reasonable care. ...

(c) Based upon the most recent reserve study and other information, whether currently projected reserve account balances will be sufficient at the end of each year to meet the association's obligation for major maintenance, repair, or replacement of reserve components during the next thirty years;

(d) If reserve account balances are not projected to be sufficient, what additional assessments may be necessary to ensure that sufficient reserve account funds will be available each year during the next thirty years, the approximate dates assessments may be due, and the amount of the assessments per unit per month or year;

(e) The estimated amount recommended in the reserve account at the end of the current fiscal year based on the most recent reserve study, the projected reserve account cash balance at the end of the current fiscal year, and the percent funded at the date of the latest reserve study;

(f) The estimated amount recommended in the reserve account based upon the most recent reserve study at the end of each of the next five budget years, the projected reserve account cash balance in each of those years, and the projected percent funded for each of those years; and

(g) If the funding plan approved by the association is implemented, the projected reserve account cash balance in each of the next five budget years and the percent funded for each of those years.

Articles of Incorporation: Article II The purposes for which this corporation is formed are: (5) To fix, establish levy and collect charges or assessments as may be necessary in the judgment of the Board of Trustees of this corporation to carry out any or all of the purposes for which this corporation is formed, but not in excess of the maximum amount from time to time may be fixed by the By-laws of this corporation.

Current Cape George Governing Document, Bylaws:

**ARTICLE III
GOVERNING
BODY**

A. THE BOARD.

1) The governing body of the Club is the Board, as provided in the Governing Documents, the Act, the Nonprofit Corporation Act, or as hereinafter provided. The Board shall act in all instances on behalf of the Club.

2) The Board shall consist of seven Trustees who shall be Members in good standing of legal age.

3) Neither Trustees nor members of any Committee of the Board shall receive any salary or compensation for their services. However, by resolution of the Board a sum may be fixed for tuition for such educational programs as the Board may determine to be in the best interest of the Club. Nothing herein shall preclude any Trustee from serving the Club in any other capacity and receiving compensation, therefore.

B. POWERS OF THE BOARD.

The Board shall possess and exercise the powers set forth in the Governing Documents and those powers set forth in the Act and the Nonprofit Corporation Act. The Board shall not take any action that requires a vote of the Members. The powers of the Board include but are not limited to the following:

1) **Payments, Charges, Fees and Assessments.** The Board may impose and collect payments, charges, fees, and assessments for the use, rental, or operation of the Common Areas and for the Common Expense.

The maximum annual assessment to provide funds for the regular operation and ordinary maintenance of the Common Areas may be increased each year not more than eight per cent (8%) above the actual assessment for the previous year (with \$25 being the base amount for the budget year 2001/2002), with the actual amount determined by the Board. The proposed assessment shall be presented as part of the annual budget for ratification by the membership in accordance with Article VI, A3 and A (4) and Article VIII of these By Laws. [As Amended at Special Membership Meeting, December 14, 2006, and as previously amended at Special Membership Meeting, March 14, 2002]

In addition to this assessment for the regular operation and ordinary maintenance of the Club, there shall be an annual reserve assessment collected for the future maintenance, repair or replacement of all or a portion of the Common Areas as set forth in the Club's then current reserve studies. The initial amount of this annual reserve assessment shall be \$180.00 per lot. The annual reserve assessment shall be allocated to reserves on a pro-rata basis using the Club's then current individual professional reserve studies. This reserve assessment may be increased each year without a vote of the Members if it is not more than two- and one-half percent (2.5%) above reserve assessment for the previous year, with the actual amount determined by the Board. [As Amended at the Special Board Meeting, December 09, 2014, and effective January 1, 2015]

In addition to the annual assessments authorized above, the Board may levy in any assessment year a special assessment for the purpose of defraying in whole or in part the cost of any construction, reconstruction, repair or replacement of a capital improvement upon the Common area provided that any such assessment be approved by the membership. [As amended at Special Membership meeting, March 14, 2002]

**ARTICLE IX
RESERVES, RESERVE STUDIES AND RESERVE DISCLOSURES**

All references in Article IX are subject to the provisions of RCW 64.38, the "Act," as now enacted and as hereafter altered, amended, or reenacted. In any dispute, discussion or clarification of Article IX, the provisions of the "Act" shall control.

1) The association is encouraged to establish and maintain distinct and identifiable reserve accounts to fund major maintenance, repair, and replacement of common elements that will require major maintenance, repair, or replacement within thirty years. The board of directors is responsible for administering the reserve account.

2) Unless doing so would impose an unreasonable hardship, the association shall update the reserve study annually. At least every three years, an updated reserve study must be prepared and based upon a visual site inspection conducted by a reserve study professional. The first reserve study prepared by a reserve study professional for Cape George was completed in 2014.

3) The decisions relating to the preparation and updating of a reserve study must be made by the board of directors in the exercise of the reasonable discretion of the board. The decisions must include whether a reserve study will be prepared or updated, and whether the assistance of a reserve study professional will be utilized.

4) A reserve study must include the specific elements detailed in RCW 64.38.070.

5) A reserve study must also include the following disclosure: "This reserve study should be reviewed carefully. It may not include all common and limited common element components that will require major maintenance, repair, or replacement in future years, and may not include regular contributions to a reserve account for the cost of such maintenance, repair, or replacement."

Recommendation from Nancy Charpentier, Treasurer

A. Bylaw Changes

Three Bylaw changes are being proposed. The first is to double the cap on Reserve Funds from the current 2.5% to 5% beginning in 2025. The 2nd change adds a section that provides for an increase of an assessment beyond the established cap subject to approval of the membership. This 2nd section can be applied to either the Operating or Reserve assessments. The Board will be required to provide a justification that establishes the area of distribution for the additional monies in the following year, but after that will have the authority to redirect this portion of the assessment to other areas should the need arise.

Thus, Article III has proposed revisions that will establish those two changes, and a 3rd change is required to Article VI which defines the votes needed from the membership to approve the change:

ARTICLE III GOVERNING BODY

A. THE BOARD.

1)

B. POWERS OF THE BOARD.

The Board shall possess and exercise the powers set forth in the Governing Documents and those powers set forth in the Act and the Nonprofit Corporation Act. The Board shall not take any action that requires a vote of the Members. The powers of the Board include but are not limited to the following:

1) Payments, Charges, Fees and Assessments. The Board may impose and collect payments, charges, fees, and assessments for the use, rental, or operation of the Common Areas and for the Common Expense.

The maximum annual assessment to provide funds for the regular operation and ordinary maintenance of the Common Areas may be increased each year without a vote of the membership by not more than eight per cent (8%) above the actual assessment for the previous year (with \$25 being the base amount for the budget year 2001/2002), with the actual amount determined by the Board. The proposed assessment shall be presented as part of the annual budget for ratification by the membership in accordance with Article VI, A3 and A (4) and Article VIII of these By Laws. [As Amended at Special Membership Meeting, December 14, 2006, and as previously amended at Special Membership Meeting, March 14, 2002]

In addition to this assessment for the regular operation and ordinary maintenance of the Club, there shall be an annual reserve assessment collected for the future maintenance, repair or replacement of all or a portion of the Common Areas as set forth in the Club's then current reserve studies. The initial amount of this annual reserve assessment shall be \$180.00 per lot. The annual reserve assessment shall be allocated to reserves on a pro-rata basis using the Club's then current individual professional reserve studies. This reserve assessment may be increased each year without a vote of the Membership if it is not more than five percent (5.0%) above the reserve assessment for the previous year, with the actual amount determined by the Board. [As Amended at the Special Board Meeting, December 09, 2014, and effective January 1, 2015]

If the Board wishes to propose an increase that exceeds the maximums cited above for either assessment, it will require a vote of the membership as per Article VI, A5. The vote may include a specific targeted operating expense or reserve fund(s) for the additional assessment amount that, once enacted, may be redirected in subsequent years at the discretion of the Board and not subject, in the case of a Reserve assessment increase, to the pro rata distribution formula.

ARTICLE VI MEETINGS

Robert's Rules of Order shall be recognized as the authority governing all meetings when not in conflict with law, the Articles of Incorporation hereof, or these Bylaws.

A. MEETING OF THE MEMBERS

.....

3) **Matters Requiring a 67% Vote of the Members:** The following matters shall require a 67% vote of the Members voting at an annual or special meeting at which a quorum of Members is present:

- a) Any proposed amendment to the Articles of Incorporation,
- b) Any proposal to waive the annual audit,
- c) Any proposal to terminate the Club.
- d) Any proposal to increase an assessment amount for the following year by an amount exceeding the limits established in Article III, B1.

B. Discussion of Amount to Increase Starting in 2025

While the focus of today's meeting is the nature of the Bylaw change necessary to give the membership the tools needed to ensure ongoing satisfaction of funding needs for our Reserve expenditures into the future, an analysis of the RCL study reveals several items which we need

to take into consideration when assessing the nature of the increase in comparison with their recommendations:

- 1) RCL calculations are based solely on Assessments collected, and doesn't take into account additional funding achieved each year through both interest earnings and the transfer of end of year net cash to the Reserve funds. In the case of 2023, for example, there is \$18,910 in Interest earned, plus net cash of \$104,000, which increases our 2023 contribution by 61%. In 2022 Net Cash transfer was \$129k. These numbers will fluctuate, but we have taken steps to increase interest earnings and net cash will always be a factor in funding our Reserves.
- 2) There has been a significant shift in the strategic direction of our Marina docks, resulting in a substantial reduction in funding needs over the next 30 years.
- 3) I believe in assessing our financial needs we should take a critical eye to our General Operations funding, as there are many items:
 - a. with aggressive cycle times not born out by reality (i.e. funding replacement every 8 years of items that are currently in excess 8 years old, not currently needing to be replaced, and valued for 15 years on our asset listing)
 - b. one item in violation of our Rules for inclusion in Reserves funding (\$239,674 over the next 30 years)
 - c. several items which have been supplied through donations and fundraising that perhaps should be removed from our plans

All of these together alter the schedule of funding needed and, while I believe strongly that we cannot incrementally make up for the shortfall by raising the cap and waiting for the funding to gradually increase, my initial review leads me to believe that the additional assessment needs can be attained in the neighborhood of \$200 per lot per year. I'll be preparing a thorough analysis for presentation later in the year, and that number may change, once we have determined the Bylaw change that would best meet our needs.

My hope for this meeting today is that we will have a thorough discussion of the nature of the change needed for the Bylaws in order that the Membership may enact the necessary change to our Assessment funding. The specific dollar amount can be determined at a later date.

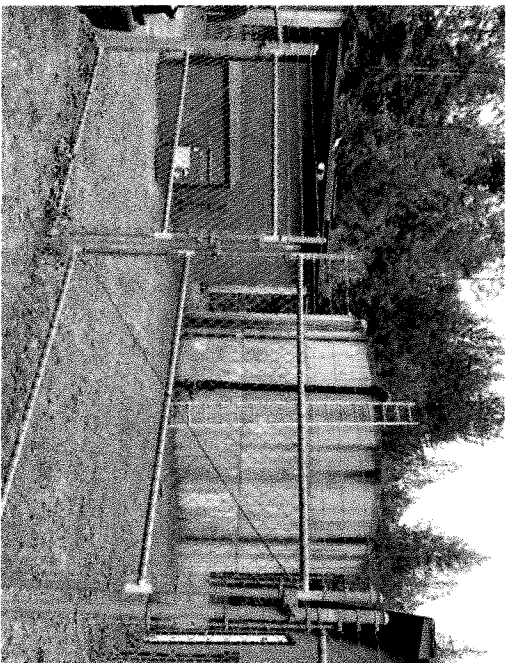
Cape George Reserve Funding Recovery Proposals 2024 Water and General Operations

Bart Mooyman-Beck, Vice President

**Cape George Reserve Funding
Recovery Proposal 2024
Water Operations**

Governing Laws/Documents

- Water System
 - State Statute 331-134 page 87
 - The governing body of a water system must secure stable and sufficient funds to support the operation, maintenance, and infrastructure replacement needs of the system. State law requires all water systems to demonstrate that they are and will continue to be financially viable (RCW 70.119A.100).
 - Financial viability is the ability to obtain sufficient funds to develop, construct, operate, maintain, and manage a public water system on a continuing basis, in full compliance with federal, state, and local requirements. A viable water system generates enough revenue to meet or exceed its expenses and its decision-makers manage the financial resources in a manner that accounts for future capital needs.
- Note: If you combine the water system budget into a larger budget such as a homeowners association, you will need to complete the water system budget by splitting or proportioning out the revenues, expenses, and reserve balances that apply only to the water system.
- Reserves
 - State Statute RCW 64.90.550
 - Reserve studies are legal formal documents
 - Reserve studies are the basis for CG financial planning
 - Reference Documents
 - 2021/2023 Reserve Studies



Cape George Water System Financial Status & Proposal to Ensure Financial Success

Financial Summary

EXECUTIVE SUMMARY

This Reserve Study meets the requirements of the Washington Homeowners' Association Act and the Washington Uniform Common Interest Owner Act for a Level 2 Reserve Study Update with a Site Visit, and was prepared by an Independent Reserve Study Professional.

Cape George Colony Club, the Association, includes a 520-member user small municipality water system located in Port Townsend, Washington. The Association was established in the mid-1960s. The water system assets include wells, pumps and an emergency generator, filter and treatment system, storage tanks and 9 miles of distribution system.

CAPE GEORGE COLONY CLUB WATER FACILITIES RESERVE FUND STATUS	
CAPE GEORGE COLONY CLUB WATER FACILITIES'S FISCAL YEAR	a calendar year
PROJECTED RESERVE ACCOUNT BALANCE ON DECEMBER 31, 2023	\$1,219,079 ¹
FULLY FUNDED BALANCE @ FISCAL YEAR-END 2023	\$5,011,379 ²
PERCENT FUNDED BALANCE @ FISCAL YEAR-END 2023	24% ¹
FUNDING STATUS - RISK OF SPECIAL ASSESSMENT @ FISCAL YEAR-END	Highest Risk
2023 PLANNED OR IMPLEMENTED SPECIAL ASSESSMENT COMPONENT INCLUSION THRESHOLD VALUE	\$0
CAPE GEORGE COLONY CLUB WATER FACILITIES CURRENT AND RECOMMENDED RESERVE CONTRIBUTIONS	
CURRENT BUDGETED ANNUAL CONTRIBUTION TO RESERVES	\$107,758
2024 RECOMMENDED ANNUAL CONTRIBUTION RATE	\$300,000 ³
2024 RECOMMENDED SPECIAL ASSESSMENT	None
2024 AVERAGE CONTRIBUTION PER UNIT PER YEAR	\$577
2024 AVERAGE CONTRIBUTION PER UNIT PER MONTH	\$48
2024 FULL FUNDING PLAN CONTRIBUTION RATE	\$316,100

PERCENT FUNDED

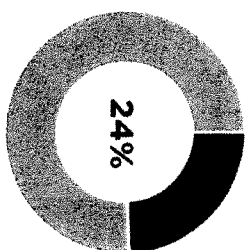
The "percent funded" is a measure of how much the Association should have saved in their reserve account compared to the projected cost for all the components the Association is responsible for and relates to the level of deterioration compared to the cost to repair or replace the component.

We typically recommend a contribution rate to meet a minimum reserve account balance (threshold) goal instead of a 100% funded rate.

We usually recommend that an association consider a threshold equal to the recommended annual reserve contribution because this is the average maintenance expense over the thirty years. However, each association must judge their unique risk tolerance.

The Fully Funded Balance for Cape George Colony Club Water Facilities is \$5,011,379. The actual current funding is \$1,219,079. The Association is approximately 24% funded.

This means that based on a straight-line savings for each reserve component, the Association saved 24% of the accumulated depreciation of the reserve components.



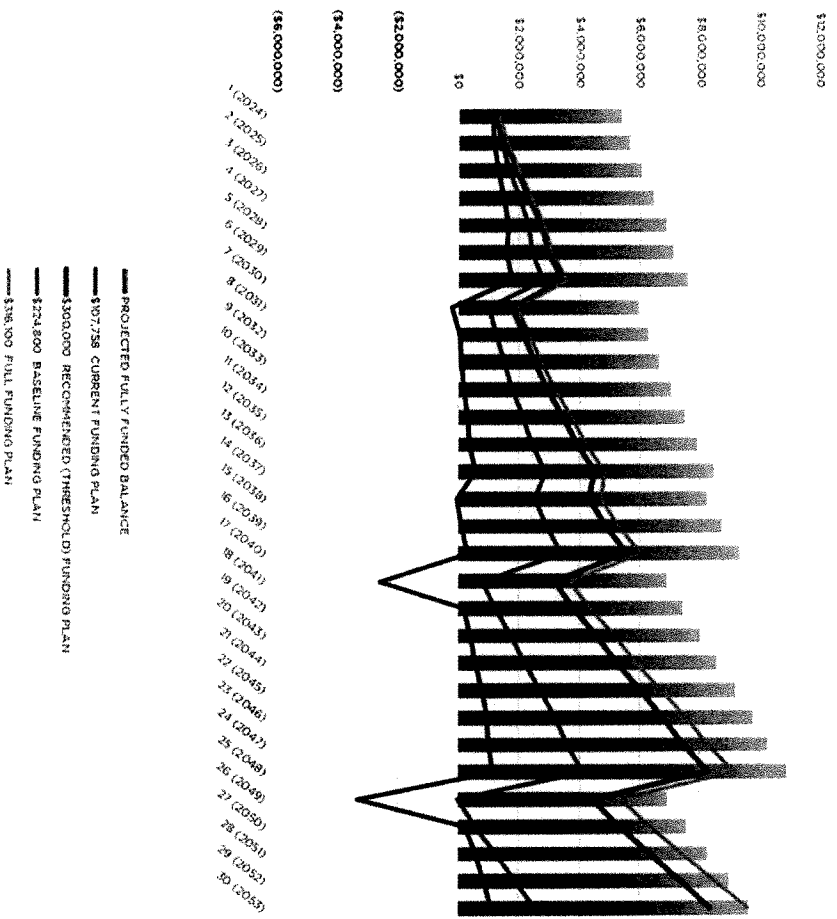
At 24% percent funded, Cape George Colony Club Water Facilities is considered to be at Highest Risk for a special assessment.

Take Aways

- Highest Risk for Assessment
- Deficit = insufficient funding over time

Forecast

Note: If the funding plans are similar or identical, only one line will be visible on some parts of the graph where the lines intersect.



Recommended Threshold Funding - \$300,000 per year
(current funding 2023- 110,000)

Deficit (catch up)

DEFICIT OR SURPLUS IN RESERVE FUNDING

RCW 64.30.550 (2)(i) requires that the reserve study include the amount of any current deficit or surplus in reserve funding expressed on a dollars per unit basis. This is calculated by subtracting the community's reserve account balance as of the date of the study from the fully funded balance, and then multiplying the result by the fraction or percentage of the common expenses of the community allocable to each unit.

The fully funded balance calculates how much money should be saved for future maintenance based on the age of each component and the cost for future maintenance. In other words, the fully funded balance assumes that money will be saved every year for the next maintenance of a component to ensure special assessments are not required to fund future reserve needs. The intent of RCW 64.30.550 (2) (i) is to show each unit's share of the surplus or deficit in reserve funding.

The Recommended Funding Plan is based on Threshold Funding, a reserve contribution rate that is constant (increasing annually with inflation) to provide funds for all anticipated reserve expenses for the life of the study but leaving a minimum level of reserves (the "threshold") at all times. The threshold provides a monetary cushion in the reserve account to help ensure that a special assessment is not required for the duration of the study, even in years when there are significant withdrawals from the reserve account. Primary consideration is given to cash needed to cover expenses and the threshold; the percent funded is typically targeted to be 80%.

If the reserve account balance is:

- equal to the fully funded balance: Cape George Colony Club Water Facilities would be considered as 100% fully funded. There would be neither a surplus nor deficit.
- less than the fully funded balance: there is a deficit meaning Cape George Colony Club Water Facilities would be thought behind on saving for future maintenance.
- more than the fully funded balance: there is a surplus meaning Cape George Colony Club Water Facilities would be deemed ahead on saving for future maintenance.

SUMMARY

PROJECTED RESERVE ACCOUNT BALANCE AS OF DECEMBER 31, 2023	\$1,219,079
CURRENT FULLY FUNDED BALANCE	\$5,011,579
RESERVE FUND (DEFICIT)	(\$3,792,300)
NUMBER OF UNITS	520
AVERAGE (DEFICIT) PER UNIT	(\$7,293)

ALL UNITS PAY EQUALLY INTO RESERVES

- Due to insufficient funding over time, the water reserve is currently \$3,792,300 underfunded

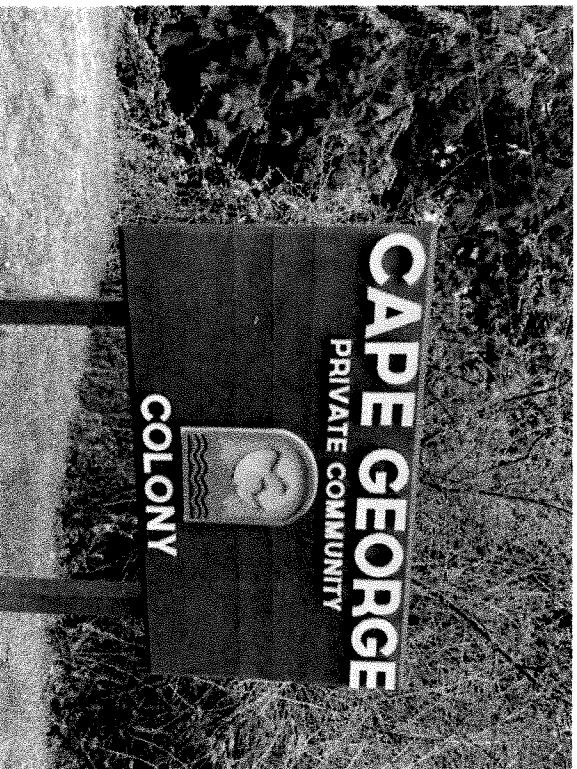
Reserve Study Year	Percent funded	Deficit	Per house hold assessment
2021	31%	\$2,363,852	\$4297
2023	24%	\$3,792,300	\$6895

- Deficit increased by \$1.4M within 2 years (wrong direction)
- State Law requires sufficient funding to meet current and future needs
- Community needs to increase yearly contribution, and remove deficit

Proposal

- Yearly Water Reserve Funding Contribution increase
 - Increase yearly water reserve contribution from current (approx) 110,000 per year to \$300,000 per year
 - This represents \$190,000/550 (units) increase = \$345 per household additional funding needed per year
- Deficit Reduction - Assuming full funding yearly contribution is established, deficit will not increase (beyond inflation), but can be handled over time
 - \$6895 per household deficit reduction payments could be handled with additional yearly or quarterly payments.

**Cape George Reserve Funding
Recovery Proposal 2024
General Operations**



Cape George Reserve Funding Recover Proposal 2024 Operations

Governing Laws/Documents

- Operations
- Reserves
 - State Statute RCW [64.90.550](#)
 - Reserve studies are legal formal documents
 - Reserve studies are the basis for financial planning
- Reference Documents
 - 2021/2023 Reserve Studies

Financial Summary

EXECUTIVE SUMMARY

This Reserve Study meets the requirements of the Washington Homeowners' Association Act and the Washington Uniform Common Interest Owner Act for a Level 2 Reserve Study Update with a Site Visit, and was prepared by an Independent Reserve Study Professional.

Cape George Colony Club, the Association, is a 662 member private residential community located in Port Townsend, Washington. It was established in the mid 1960. The community has 662 privately owned equivalent lots with 520 of those containing single family homes. The Association owns and maintains numerous buildings, including a Clubhouse, Workshop, Office and Maintenance garage, an indoor swimming pool, fitness center, outdoor sports court, and playground. Additionally, it owns and maintains its 9 miles of private asphalt roads. The Association owns a private water system and marina. These assets are funded through separate reserve accounts and have separate reserve studies.

CAPE GEORGE COLONY CLUB GENERAL OPERATIONS RESERVE FUND STATUS

CAPE GEORGE COLONY CLUB GENERAL OPERATIONS'S FISCAL YEAR	a calendar year
PROJECTED RESERVE ACCOUNT BALANCE ON DECEMBER 31, 2023	\$144,749.1
FULLY FUNDED BALANCE @ FISCAL YEAR-END 2023	\$1,240,260.7
PERCENT FUNDED BALANCE @ FISCAL YEAR-END 2023	12% ³
FUNDING STATUS - RISK OF SPECIAL ASSESSMENT @ FISCAL YEAR-END	Highest Risk
2023 PLANNED OR IMPLEMENTED SPECIAL ASSESSMENT	\$0
COMPONENT INCLUSION THRESHOLD VALUE	\$5,584

CAPE GEORGE COLONY CLUB GENERAL OPERATIONS CURRENT AND RECOMMENDED RESERVE CONTRIBUTIONS

CURRENT BUDGETED ANNUAL CONTRIBUTION TO RESERVES	\$60,776
2024 RECOMMENDED ANNUAL CONTRIBUTION RATE	\$245,000 ⁴
2024 RECOMMENDED SPECIAL ASSESSMENT	None
2024 AVERAGE CONTRIBUTION PER UNIT PER YEAR	\$367
2024 AVERAGE CONTRIBUTION PER UNIT PER MONTH	\$31
2024 PLANNED FUNDING PLAN CONTRIBUTION RATE	\$183,700



PERCENT FUNDED

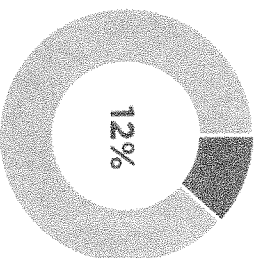
The "percent funded" is a measure of how much the Association should have saved in their reserve account compared to the projected cost for all the components the Association is responsible for and relates to the level of deterioration compared to the cost to repair or replace the component.

We typically recommend a contribution rate to meet a minimum reserve account balance (threshold) goal instead of a 100% funded rate.

We usually recommend that an association consider a threshold equal to the recommended annual reserve contribution because this is the average maintenance expense over the thirty years. However, each association must judge their unique risk tolerance.

The Fully Funded Balance for Cape George Colony Club General Operations is \$1,240,260. The actual current funding is \$144,749. The Association is approximately 12% funded.

This means that based on a straight-line savings for each reserve component, the Association saved 12% of the accumulated depreciation of the reserve components.



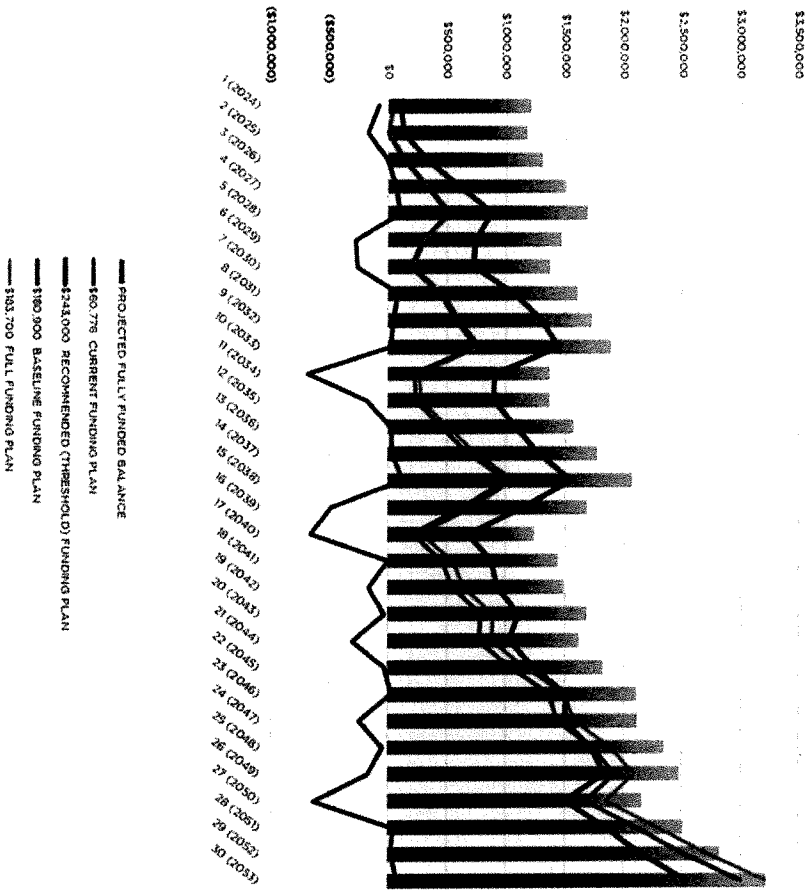
At 12% percent funded, Cape George Colony Club General Operations is considered to be at **Highest Risk for a special assessment.**

Take Aways

- Highest Risk for Assessment
- Deficit = insufficient funding over time

CAPE GEORGE COLONY CLUB GENERAL OPERATIONS
 1001 10th Street, Port Townsend, WA 98143-1001

Forecast



Recommended Funding Plan \$243,000
 (current funding 2023 - \$53,854)

Deficit (catch up)

DEFICIT OR SURPLUS IN RESERVE FUNDING

RCW 64.90.550 §2(f) requires that the reserve study include the amount of any current deficit or surplus in reserve funding expressed on a dollars per unit basis. This is calculated by subtracting the community's reserve account balance as of the date of the study from the fully funded balance, and then multiplying the result by the fraction or percentage of the common expenses of the community allocable to each unit.

The fully funded balance calculates how much money should be saved for future maintenance based on the age of each component and the cost for future maintenance. In other words, the fully funded balance assumes that money will be saved every year for the next maintenance of a component to ensure special assessments are not required to fund future maintenance. The intent of RCW 64.90.550 §2 (f) is to show each unit's "share" of the surplus or deficit in reserve funding.

The Recommended Funding Plan is based on Threshold Funding, a reserve contribution rate that is constant (increasing annually with inflation) to provide funds for all anticipated reserve expenses for the life of the study but leaving a minimum level of reserves (the "threshold") at all times. The threshold provides a monetary cushion in the reserve account to help ensure that a special assessment is not required for the duration of the study, even in years when there are significant withdrawals from the reserve account. Primary consideration is given to cash needed to cover expenses and the threshold; the percent funded is typically targeted to be 80%.

SUMMARY

PROJECTED RESERVE ACCOUNT BALANCE AS OF DECEMBER 31, 2023	\$144,749
CURRENT FULLY FUNDED BALANCE	\$1,240,280
RESERVE FUND (DEFICIT)	(\$1,095,511)
NUMBER OF UNITS	662
AVERAGE (DEFICIT) PER UNIT	(\$1,655)

ALL UNITS PAY EQUALLY INTO RESERVES

If the reserve account balance is:

- equal to the fully funded balance, then the fully funded balance is 100% funded. Club General Operators would be considered as 100% fully funded. There would be neither a surplus nor deficit.
- less than the fully funded balance, then a deficit meaning Cape George Colony Club General Operators would be thought behind on saving for future maintenance.
- more than the fully funded balance, there is a surplus meaning Cape George Colony Club General Operators would be deemed ahead on saving for future maintenance.

- Due to insufficient funding over time, the general reserve is currently \$1,095,511 underfunded
- Community needs to increase yearly contribution, and remove deficit

Reserve Study Year	Percent Funded	Deficit	Per Household Assessment
2023	12%	\$1,095,511	\$1,991

Proposal

- Yearly General Reserve Funding Contribution increase
 - Increase yearly General reserve contribution from current (approx) \$53,854 per year to \$243,000 per year
 - This represents \$189146/550 (units) increase = \$343 per household additional funding needed per year
- Deficit Reduction - Assuming full funding yearly contribution is established, deficit will not increase (beyond inflation), but can be handled over time
 - \$1991 per household deficit reduction payments could be handled with additional yearly or quarterly payments.

FINANCE COMMITTEE RECOMMENDATIONS

Submitted by: Mark Kochendorfer, Susan Sanford and Fayla Schwartz

February 6, 2024

We feel the bylaw needs to change and replace the pro rata funding method to achieve a better baseline funding than the pro rata formula can do. Our recommendation is three fold:

1. Specify the assessment base for each of the three funds, and treat them separately.
2. Double the cap from 2.5% to 5%, to apply to each fund individually.
3. Allow the Membership to vote to change (reset) one or more of the three funding levels to a new assessment rate.

The intent is to only allow the board to increase (not decrease) funding for each fund by up to 5%. The board can ask the membership to vote to change (reset) one or more of the funds' funding rates to a new level. Once approved, the reset amount becomes the base rate for consideration the next year.

The assessment for each fund is not affected by RCL studies--only by board action or membership vote. This seems best since if RCL recommends an increase in funding for one or more funds there is not likely to be a decrease in their funding recommendations for another fund. If in any future year a funding decrease is needed it would be a simple matter for the board to recommend the membership vote to do so.

A sample draft of the bylaw change would be to alter Article III, Section B, Paragraph 1 as follows:

1) **Payments, Charges, Fees and Assessments.** The Board may impose and collect payments, charges, fees, and assessments for the use, rental, or operation of the Common Areas and for the Common Expense.

The maximum annual assessment to provide funds for the regular operation and ordinary maintenance of the Common Areas may be increased each year not more than eight per cent (8%) above the actual assessment for the previous year (with \$25 being the base amount for the budget year 2001/2002), with the actual amount determined by the Board. The proposed assessment shall be presented as part of the annual budget for ratification by the membership in accordance with Article VI, A3 and A (4) and Article VIII of these By Laws. [As Amended at Special Membership Meeting, December 14, 2006, and as previously amended at Special Membership Meeting, March 14, 2002]

In addition to this assessment for the regular operation and ordinary maintenance of the Club, there shall be three annual reserve assessments (one for each of the Club's three funds) collected for the future maintenance, repair or replacement of all or a portion of the Common Areas as set forth in the Club's then current reserve studies. The initial 2024 amounts of these

annual reserve assessments shall be \$81.00 per lot for General Operations Reserve Fund, \$140 per lot for the Water Reserve Fund, and \$88 per lot for the Marina Reserve Fund. These reserve assessments may be increased each year without a vote of the Members if each increase is not more than five percent (5.0%) above that fund's reserve assessment for the previous year, with the actual amount determined by the Board.

Beginning in 2024, there shall also be the ability to increase or decrease either the Common Area Maintenance or Reserve assessments from then current levels by a fixed dollar amount by vote of the Membership.

FINANCE COMMITTEE RECOMMENDATIONS

Submitted by: Mark Kochendorfer, Susan Sanford and Fayla Schwartz

February 6, 2024

Assuming the Article III, Section B, Paragraph 1 of the Bylaw is changed per our recommendation, after review of the financing required to adequately fund our reserves, we propose the following changes in Funding levels per fund:

The finance committee is recommending under the new bylaw that the rates for Water and General Operations be reset to higher levels for 2025. The reserve assessment for the Water Fund should be reset from the current level of \$140 per lot to \$324 per lot and the reserve assessment for the General Operations fund be changed from \$81 per lot to \$227 per lot. These dollar amounts are annual amounts based on 662 lots. This is \$214,488 for the Water Fund and \$150,274 for the General Operations Fund annually beginning in 2025.

We consider the baseline amounts established in 2024 inadequate to provide funds in time to prevent special assessments. Our projections use the RCL assumptions of 4% component cost inflation in 2025 and beyond and 2% interest rates. They do not assume any contributions from year end surpluses. These surpluses are important and may allow for less than 5% increases in the future from time to time. Similarly eliminating components or delaying them could reduce the need for increases in the future. In the operations cash flow it will be necessary to eliminate or delay expenditures in some years.

Our recommendation is that under the new bylaw that the rates for Water and General Operations be reset to higher levels for 2025. The reserve assessment for the Water Fund should be reset from the current level of \$140 per lot to \$324 per lot and the reserve assessment for the General Operations fund be changed from \$81 per lot to \$227 per lot. These dollar amounts are annual amounts based on 662 lots. This is \$214,488 for the Water Fund and \$150,274 for the General Operations Fund annually beginning in 2025. Overall this is a 106% increase, and will require a vote of the membership to enact.