

# **GREEN VALLEY RECREATION**

## **5-YEAR FINANCIAL PLAN**

### **2010 – 2014**

**PREPARED BY THE 2009 PLANNING & FISCAL AFFAIRS COMMITTEE**

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### **INTRODUCTION**

The GVR Mission Statement, “To provide recreational, social and leisure opportunities that enhance the quality of our members’ lives” as well as the GVR Strategic Plan are the guidelines used in preparing this plan.

At this time, this report does not consider any reductions in services, significant reductions in membership, or cost reductions efficiencies directly resulting from the ongoing reports and studies mentioned in the report. Future Board and Fiscal Affairs Committees should discuss and review these issues annually and update the report accordingly.

The 2008 Fiscal Affairs Committee has identified the key issues that will have an effect on the future of GVR. The Planning & Evaluation Committee will be updating the LONG TERM FACILITIES PLAN and this financial plan will be incorporated into the LONG TERM FACILITIES PLAN. Some important tools that are not yet available and existing studies will be discussed in the next section. These tools include a needs assessment study and a facilities utilization study.

GVR has three reserve funds. They are: (1) the Operating Reserve, (2) the Replacement Reserve, and (3) the Additions Reserve. These three reserve funds will be referred to throughout this plan.

As of this date, the Operating Reserve and the Additions Reserve do not have any restrictions, goals, or requirements imposed on them by the GVR Board of Directors.

The Replacement Reserve, however, is tied directly to the “FULL” RESERVE STUDY which was prepared by Association Reserves Arizona, LLC. The original study was prepared in March, 2006 and has been updated annually. This study identifies the cost of facilities and/or equipment that needs to be repaired or replaced each year based on its particular useful life. The study also identifies the amount that should be held in the reserve fund at the end of the calendar year.

Six tables are included to help understand what GVR can do to insure future fiscal responsibility to its members.

**Table 1** is the last 5-year history of GVR's income and expenses. The actual audit statements for the years 2004, 2005, 2006, 2007 and 2008 were used. In the audited statements depreciation is treated as an expense.

**Table 2** shows a 5-year projection of GVR income/expense (budgets) based on no annual dues increase and the assumptions identified in the notes. Budgets are based on cash flow with zero carryover from prior years. The approved budget for 2009 is included for information only and for continuity. Starting with the approved budget for 2010, this table provides a look into the future.

**Table 3** shows a 5-year projection of GVR income/expense (budgets) based on annual dues increases equal to the assumed inflation rate indicated in the notes. This spreadsheet is identical to Table 2 with the sole exception of dues income.

**Table 4** compares the year end reserve fund balances between Table 2 and Table 3.

## EFFECTIVE TOOLS AND INFORMATION

1. The update of the **FULL REPLACEMENT RESERVE STUDY** is included in the 2009 approved budget. The existing study only includes repairs and replacement costs of \$5,000 or more. Items under this amount are expensed each year and are addressed in the operating budget as "furniture and equipment" and "repairs and maintenance." In preparing the 2009 budget, several shortcomings in the study were noted and will be addressed in the 2009 update. This study did not include the cost of shipping and installation for equipment such as roof AC/heating units. Also, the age of underground service lines (sewer, water and electric) serving each center has not been included in the reserve study. The updated study must consider all changes to building code requirements. One problem already encountered was that one study recommended the replacement of a dust collection system as originally designed. When it came time to replace it, it was discovered that it did not meet current code and the cost to comply to code greatly increased the cost over that allowed in the study.
2. **GVR STRATEGIC PLAN** identifies the areas of potential cost to GVR. It is a useful document for presenting an overview of GVR's future direction.

3. **The Planning & Fiscal Affairs Committee's lists of projects** identify the costs of repairs, replacement and new additions that are outside of the Full Reserve Study and routine repair and replacement under \$5,000. In addition, it is recommended that PFAC prepare a **CAPITAL IMPROVEMENT PLAN** which can identify what and where new facilities can be added onto existing GVR properties. For example, Desert Hills and Las Campanas both have room for future buildings. Once this has been done, then the additions reserve fund could be used to fund these projects. The Phase II improvements at Canoa Ranch Recreation Center should be included; however, this facility is governed by an existing Developer Agreement. Any change to the Phase II facilities must go to the Developer Committee to renegotiate with the Developer.
4. **LONG RANGE FACILITY PLAN FOR GVR 2003 – 2012** was prepared and adopted in February, 2003. This plan has not been updated, but it is scheduled to be updated in 2009 and will be expanded to include a Capital Improvement Plan and this 5-Year Financial Plan.
5. **NEEDS ASSESSMENT SURVEY** is needed to better understand what our members' expectations are. At this time, the Board has authorized a committee to investigate the advantage of doing a joint survey with GVCCC.
6. **FACILITY USE STUDY** is currently underway to understand how the existing facilities are being used. This information would greatly assist in making potential reduction in services and/or operating hours in the event dues increases are not possible or are insufficient to keep up with GVR member's demands. This information will also assist in determining how to best maximize the use of existing facilities before adding new facilities.

## **GOING GREEN**

Energy conservation is a high priority and should be aggressively pursued. The 5-year income/expenses shown in Tables 2 and 3 assume that the cost of energy savings projects will be funded from the estimated saving in energy costs. For the ease of planning, the total utility costs shown are based on a straight line annual increase in total energy costs.

GVR has already adopted a policy of Xeriscape for all new landscaping; existing landscaping is also to be converted to Xeriscape. This policy should be monitored and continued.

The current efforts to recycle and use material made from recycled material is to be encouraged and expanded.

## ALTERNATE FINANCING

Funding for the formation of a charitable tax-exempt foundation is included in the 2009 budget. At this time, we are unable to determine the financial impact on GVR. It is hoped that members will donate to the fund in sufficient amounts to supplement funds for new facilities. According to the Internal Revenue Service, a foundation may not operate unless any of its activities is in furtherance of a purpose other than supporting or benefiting one or more public organizations. In other words, a foundation cannot exist with a sole purpose and/or a sole beneficiary. While GVR may benefit greatly from the funds donated to the foundation, we cannot be the only beneficiary from the foundation. Additional information regarding the foundation will be provided for this plan as soon as staff proceeds with establishing the foundation.

Historically, GVR has never taken out construction loans and has lived within its means. Continuation of this policy may not be in the best interest of GVR. Many factors need to be considered on a case-by-case basis; however, it is our experience that a better project with more GVR control can be accomplished now with borrowed funds. Phase III of Las Campanas used funds advanced by the Developer against future initial fees. The planning and design closely followed by construction under GVR's control resulted in a great project that was done under budget. Although this is not a loan as commonly identified, it is a loan against future income. From this point on, all initial fees due for the remaining properties in Las Campanas will go to the Developer to pay back this advance.

A conventional loan may be appropriate whenever the total cost of the loan is less than the future inflated construction costs. Three factors must be reviewed to determine if a conventional loan is in GVR's best interest. First is the interest rate on the loan. Second is the expected rate of return on funds invested until sufficient funds have been collected. Third is the expected increase in construction costs if a project is delayed until sufficient funds are available. The real risk to GVR is that in some years income may be less than the loan payment and GVR may need to use reserve funds to make up the deficit.

Another type of loan to consider is borrowing from reserves. This carries with it the potential that the reserves may be reduced to unsafe levels. However, if the "FULL RESERVE STUDY" and the "5-YEAR FINANCIAL PLAN" are kept up to date, this risk can be minimized.

Leasing versus ownership should be reviewed yearly. Many factors may change the scale from ownership to leasing. For example, the maintenance cost as well as ongoing technical improvements has made copy machines an item that almost everyone leases. These same factors may make replacement of some exercise equipment more costly than leasing its replacement.

## **RISK MANAGEMENT**

Theft and/or injury claims can create a financial burden on GVR. The current Risk Management Committee has been very successful at minimizing GVR's exposure. Ongoing review of GVR's facilities by this Committee should continue and their recommendations should be swiftly acted upon. Programs aimed at securing the facilities should have a high priority to minimize loss and vandalism. Continued review of GVR's insurance provider is required to assure GVR has the best coverage at the lowest cost.

## **CONCLUSIONS AND RECOMMENDATIONS**

The hard work of the current and past boards and committee members has created a firm foundation for GVR's future. By looking at the past (Table 1) and estimating the expected income and expenses for the next five years (Tables 2 & 3), it is possible to identify the areas that may have the greatest impact on GVR's resources. The purpose of this study is to show trends in both income and expenditures as a tool for preparing future budgets.

In 2008, Phase III at Las Campanas Recreation Center, Phase I at the Canoa Ranch Recreation Center, and the expansion of the West Center Wood Shop was completed. This added approximately 29,000 square feet of facilities and the thirteenth swimming pool as well as the sixth fitness room. This equates to a 16% increase in facilities. The 2009 approved budget includes the additional manpower and operating costs associated with this expansion.

Working with the format used in Tables 2 & 3, this study will address each line item starting with income. To assist in future updates, all the assumptions used in preparing these tables are identified in the notes. All the tables and notes are in the attached appendix.

## **DUES INCOME**

The total income from dues is affected by two key elements, the annual dues as set each year by the Board and the number of members billed each year. In Table 1, the actual 5-year fiscal history is shown. Although dues were not increased in 2005 and 2007, the total income did increase as a result of 410 new members being added. As membership in GVR is deeded to the property, new members are added when (1) new homes constructed by a Developer are sold to the first owner, (2) existing vacant lots which have GVR deed restrictions are built and occupied, or (3) when a property is in areas that may join GVR due to grandfather rights and the addition of a deed restriction.

In 2005, the housing market reached its peak, with houses in the Canoa Ranch and Las Campanas areas reaching unexpected heights and resale of existing homes reaching 1,250 units

within GVR. With the recent collapse of the housing market, a conservative estimate of 350 new members per year was used in preparing the estimated dues income used in both Table 2 and Table 3.

Table 4 is a view of the longer term effects on the reserve funds. This table compares the difference between not increasing dues at the annual inflation rate versus increasing the dues at the same annual rate as expenses. The cumulative loss to GVR in just 5 years is \$1,735,700 if dues are not increased at the same rate as expenses are increased.

**It is our recommendation that the dues be increased each year to offset the effects of inflation on expenses.** It may not be necessary to increase dues each year if a corresponding reduction in operating costs can be made. It is imperative that any reduction in operating costs is the result of increased manpower productivity and other effective cost savings and not by the deferral of needed repairs and replacement.

#### **FACILITY RENT, PROGRAM, INSTRUCTIONAL, AND LIFE CARE, TRANSFER & TENANT FEES - (Review Annually)**

In Table 1, the total of these items have been fairly consistent over the last five years. In 2007 and 2008, some changes in these fees have been made. Since the purpose of Tables 2 & 3 was to identify trends, it was assumed that these can remain unchanged from year to year without distorting the results.

#### **OTHER INCOME - (Review Annually)**

In Table 1, "Other Income" included LIFE CARE, TRANSFER & TENANT FEES, which was handled as a separate line item in Tables 2 & 3, and was maintained at the same level as in the approved 2009 budget based on staff comments. The "Other" in Tables 2 & 3 isolates income from late fees, fines and miscellaneous items as well as funds released from restrictions. In 2009, this included \$224,000 that was released from restrictions (previously set aside for the operating and staffing of the first full year of operation of Canoa Ranch Recreation Center). For years 2010 through 2013, it is not anticipated that any funds will be released from similar restrictions.

## **FEES (INITIAL & NEW MEMBER) – (Review Annually)**

This line item consists of two fees, the Initial Fee and the New Member Capital Fee. The Initial Fee is collected for newly constructed homes and it is tied to Developer Agreements. The original developer agreement established the Initial Fee based on the cost of constructing the recreation centers at Las Campanas and Canoa Ranch and the total number of homes proposed in these two developments. The agreement stated that the Initial Fee “may be increased at the end of calendar year ..... by an amount not greater than that commensurate with the increase, if any, in the Consumer Price Index, All Items, All Cities (the “CPI”).” Since this fee was established, it had been used for all new construction on property with the necessary deed restrictions within GVR boundaries.

Any change in this fee will require the renegotiation of the existing agreements. As soon as the final cost of Phase I at Canoa Ranch is finalized, the Developer Committee should proceed with review of Phase II of the Canoa Ranch Recreation Center in conjunction with PFAC.

A New Member Capital Fee is collected when a GVR member sells to a non-member. This fee was one half of the Initial Fee until 2008 when the Board approved increasing it to the same amount as the Initial Fee. If the member sells to another member, then only the Transfer Fee applies.

The Developer of Las Campanas has advanced funds for the construction of the final Phase of the recreation center in accordance with the Developer Agreement; therefore, all remaining initial fees to be collected will go back to the Developer. The Developer of Canoa Ranch has advanced funds for the construction of the Canoa Ranch Recreation Center Phase I and all Initial Fees will go back to the Developer until the advanced funds are repaid.

Although some other developments are underway that are subject to the Initial Fee, the 5-year plan assumes that the largest portion of the FEES (INITIAL & NEW MEMBER) income will come from resale of properties to non-members. Based on the fees collected during the first 10 months of 2008, Tables 2 & 3 estimated a total of 350 units for each of the next 5 years.

## **INTEREST INCOME - (Review Annually)**

Interest income is directly related to the amount of funds that can be invested for a longer period of time and the interest rate paid. Because of the current economic recession, a very conservative estimate was used in Tables 2 & 3. Staff and the Board are very aware of the fact that the current “Full Reserve Study” has understated the cost of repairs and replacements by not including the installation costs. It is anticipated that this will result in pressure to use

existing reserve funds and thereby reduce the amount available for investment. This concern will be expanded upon in the review of the reserve funds.

## **EXPENDITURES**

### **OPERATING COSTS - (Review Annually)**

Operating costs increased from 2008 to 2009 because of the 18% increase in the square footage of GVR facilities, including the addition of the thirteenth swimming pool that was completed by the end of 2008.

### **SALARIES, WAGES & BENEFITS - (Review Annually)**

Under the direction of the Board, staff has made great efforts to assure that all positions are competitive with the surrounding communities. Therefore Tables 2 & 3 used a 3% inflation rate to assure that this competitive position is not eroded away. GVR had experienced a high turnover rate in the past, and the success in finding qualified and motivated employees requires that our pay rates stay competitive.

GVR's members demand that our facilities be operated and maintained to the highest standards.

### **EMPLOYEE RELATED EXPENSES - (Review Annually)**

Employee related expenses include employee recognition programs, recruiting (newspaper ads, background checks, drug testing, etc.) conferences, training and uniforms.

### **UTILITIES - (Review Annually)**

Costs for utilities have increased each year and it is expected that this will continue for many more years. However, energy saving projects and programs are currently under study and the cost of implementing them is usually paid back by the actual reduction in utility bills. In Tables 2 & 3 it is assumed that the utility cost will continue to go up at an annual 3% rate. It is too difficult to estimate the cost of these programs. The P & E Committee is obtaining proposals for studies to evaluate all of our facilities for potential energy savings.

As more information becomes available, an additional line item could be established in the Budget to identify the portion of estimated savings available for conservation projects. However, the total for utilities and energy conservation equal the straight line inflated projection of utility costs.

## **PLANNING & DEVELOPMENT**

In 2007, the Board and the Planning & Evaluation Committee established a policy that required all capital projects to be studied and designed and only after bids were received would they be submitted to the Board for funding and approval. In the 2009 approved budget, \$50,400 has been approved for project study and design, of which \$20,000 has been approved to study and design the renovation of the Member Services Center Building. This building should have fire sprinklers installed and better utilization of existing space and is not in the Full Reserve Study. Funding for construction will have to come out of the additions reserves. Other items included in this \$50,400 budget are \$15,000 for the reserve Study Update, \$10,000 for the study of the tennis courts structural stability at the West Center, and \$5,400 for miscellaneous studies.

## **PROGRAM CONTRACT SERVICES - (Review Annually)**

The budget amount for this item used in Tables 2 & 3 assumed that this will remain constant just as the income for this is expected to remain constant.

## **REPAIRS AND MAINTENANCE**

The Full Reserve Study does not include costs under \$5,000 for Repairs & Maintenance. Items like repainting a small bathroom or repairing a broken window are covered under this line item. In Tables 2 & 3, this has been inflated at an annual rate of 3%.

## **FURNITURE & EQUIPMENT**

Just like Repairs & Maintenance, this is for items costing less than \$5,000 and not included in the Full Reserve Study. In Tables 2 & 3, this has been inflated at an annual rate of 3%.

Staff should try to buy furniture and equipment for several facilities at a time to obtain quantity discounts.

## **CONTRIBUTIONS TO RESERVES**

Tables 2 & 3 show the total contribution to reserves, which is the net difference between income and expenses. The projects identified in the Full Reserve Study for completion in that year are then subtracted from the total contribution to identify how much is added to the year end reserve balance. Table 4 allocates the net contribution shown in Tables 2 & 3 to the three reserve funds. In addition, the Full Reserve Study recommended year-end balance should be in the Replacement Reserves Fund as shown. It is clear from Table 4 under the “no dues increase” assumption that the entire net reserve must go to the Replacement Fund in all years and by 2013 it is necessary to draw down the other reserve funds just to maintain the required Replacement Reserves. As stated in the introduction, Tables 2 & 3 do not include any new projects and the Full Reserve Study has understated actual cost of replacement by not including installation costs or allowing for upgrades needed to meet code requirements.

In Table 4 under the assumption that dues will be increased at 3% annually, the net reserves are enough to meet the recommended Replacement Reserve Fund balances and provide funds for new projects.

As previously stated, these tables only identify trends and how they affect the future fiscal health of GVR.

It is our recommendation that each year this 5-year plan be updated to incorporate the recommendations of an updated Full Reserve Study, a Capital Improvement Plan, and the updated Long Range Facility Plan.

# APPENDIX

## PLANNING FOR THE FUTURE

This 5-year plan assumes that there will not be any annexation to GVR of large residential developments. The current bylaws require that any annexation be approved by the majority of GVR members voting. However, the following recommendations should be considered by the Developer Committee and firm guidelines should be adopted by the Board as to when annexation will be an overall benefit to GVR members. It is not this study's purpose to solve this, but only present questions. The following questions need to be answered:

How many new members are needed to cover the annual operational cost of a satellite center?

Will the satellite center be constructed by the developer and donated to GVR?

How many new members are needed to cover the annual operational cost of a new major recreational center?

Will the major recreational center be constructed by the Developer and donated to GVR?

Will the major recreation center be paid for by Initial Fees?

Will the Initial Fees fully cover the cost of the major recreational center?

Is the property adjacent to the GVR boundaries?

Does the major recreational facility include unique facilities that can be enjoyed by all members?

How many households are needed to generate sufficient dues income to cover the annual cost of operating a satellite center?

How many households are needed to generate sufficient dues income to cover the annual cost of operating a major center?

What is the long term cost of these facilities?

With the same assumption that no added land developments will be annexed to GVR, then the sale of existing GVR homes to new members will become the primary source of funds to upgrade and/or expand the existing facilities. It is therefore in GVR's interest to market the benefits of membership to future retirees.