

TO: FAC Members
FROM: GVR Finance Department
DATE: June 29, 2020
RE: Five-year expense increase analysis

The following discussion addresses the increase in expenses GVR has experienced over the past five years. There has been a theme of comments over the past two years that include statements of "overhead has increased significantly" and "these expense increases are not sustainable" repeated many times. This report looks at the historical data to objectively and empirically evaluate these claims. The attached report indicates that our total expenses increased 37% over five years. That is an average annual rate of 7.5% per year for 5 years. Any objective analysis would conclude that this is not insignificant rate of increase.

When looking at the data, it is evident that 80% of the budget is for Facilities and Personnel. The expenses for these two major components increased annually at the average rate of 9.9% for Facilities and 4.6% for Personnel over the past 5 years. The facilities component increased because GVR committed in 2016 to professionally maintaining, repairing, and replacing our facilities in accordance with a Professional Reserve Study. To reduce this overhead would require GVR to retract from its commitment to this process. To date, there have not been any convincing arguments presented to stop this commitment. Most facilities professionals argue our program would reduce costs in the long run. With regard to Personnel, the 4.6% average annual increase is primarily caused by a combination of normal annual increases to provide staff with increases to keep up with the cost of living and the insurance benefits cost increases coupled with the previous attempt to bring some of our lower hourly workers up to a living wage rate. GVR does have a few more personnel than existed five years ago and these additional staff wages constitute a relatively smaller portion of the increase. These increases in staff include services from Accounting, Clubs and Fitness services, and Administrative support.

For this report, some of the costs that does not include Facilities and Personnel and have increased over the past five year should be examined as well. Of this remaining 20% component of the budget, the larger increases fall specifically under Professional Fees, Other Operating Expenses, Recreation Contracts, and Bank and Credit Card Fees.

Professional Fees increases include Board related legal fees, external legal and accounting consultations, and increased audit and employment related fees. The Other Operating Expenses increases are primarily due to Investment services costs. The IT costs are projected to increase with the implementation of a new member database system. The total Recreation contracts amount increases are directly related to Program activities which basically offset these costs with increased income.

Furthermore, the Credit Card Fees have increase in accordance with the increased use of payments with credit cards by Members.

In an objective evaluation of the total annual increase rate of 7.5% over the past five years, the most significant potential ways to reduce this percentage going forward is as follows:

- Reduce Facility costs by restricting our adherence to the Maintenance Reserve and Replacement plan by postponing or eliminating planned projects. If GVR had not performed the projects included in the Maintenance Repair & Replacement Reserve study over the past few years, the average annual expense increase would have been 4.7% rather than 7.5%. MRR activities constituted about 38% of the total rate of increase. These MRR related costs are projected to increase at the rate of 2.8% in future years.
- Reduce Administrative staff (primarily Accounting, Clubs, and Fitness) by eliminating the administrative and direct services they perform. Also, living wage personnel costs are proposed to be augmented with up to \$300,000 of wage increases to make our wages competitive. This future adjustment equals 0.3% of an increase to our total expenses.
- Reduce Board related legal fees and board directed consultants.
- Eliminate the ability of Members to pay with credit cards. We could charge for this but that adds more administrative costs that offset these savings.

It is important to address whether our increased overhead is "sustainable". To be honest, an annual increase of 7.5% for the foreseeable future would be something to be concerned about. Here are a few of thoughts:

- The largest component of this increase is related to Facilities. GVR implemented the MRR program in 2017. After several annual iterations of the study, this program has settled in on a relatively stable cost pattern over the past year. The MRR reserve report that staff utilizes forecasts the MMR related costs associated with Facilities will remain stable at a rate of 2.8% over the next few years and will not contribute as much to any ongoing increases.
- Depreciation is a very significant portion of the Facilities increase. While it is an important component that makes up 0.7% of the 7.5% annual average increase, it is a non-cash expense that, after inclusion of the Pickleball Center, should flatten out over the next near term.
- It appears that there are over \$40,000 of board related costs that are non-reoccurring that will most likely not be in our future expenses.
- Outsourcing some activities may appear to reduce costs but, because GVR has established the infrastructure to administer these services, the variable savings would most likely not exceed the outsourcing costs.

Here are a couple more data points to consider

- Personnel costs of GVR are 42.2% of the total expense budget. The personnel costs of Sun City are 58.1% of their total expense budget. This may not be a totally appropriate comparison but I believe it is worth noting.
- The total expense per Member for GVR is currently \$814.68 per year. The annual expense per Resident for Sun City is \$610.58. Again, this may not be a totally appropriate comparison. They have significantly more residents and I don't know what their utilization is.

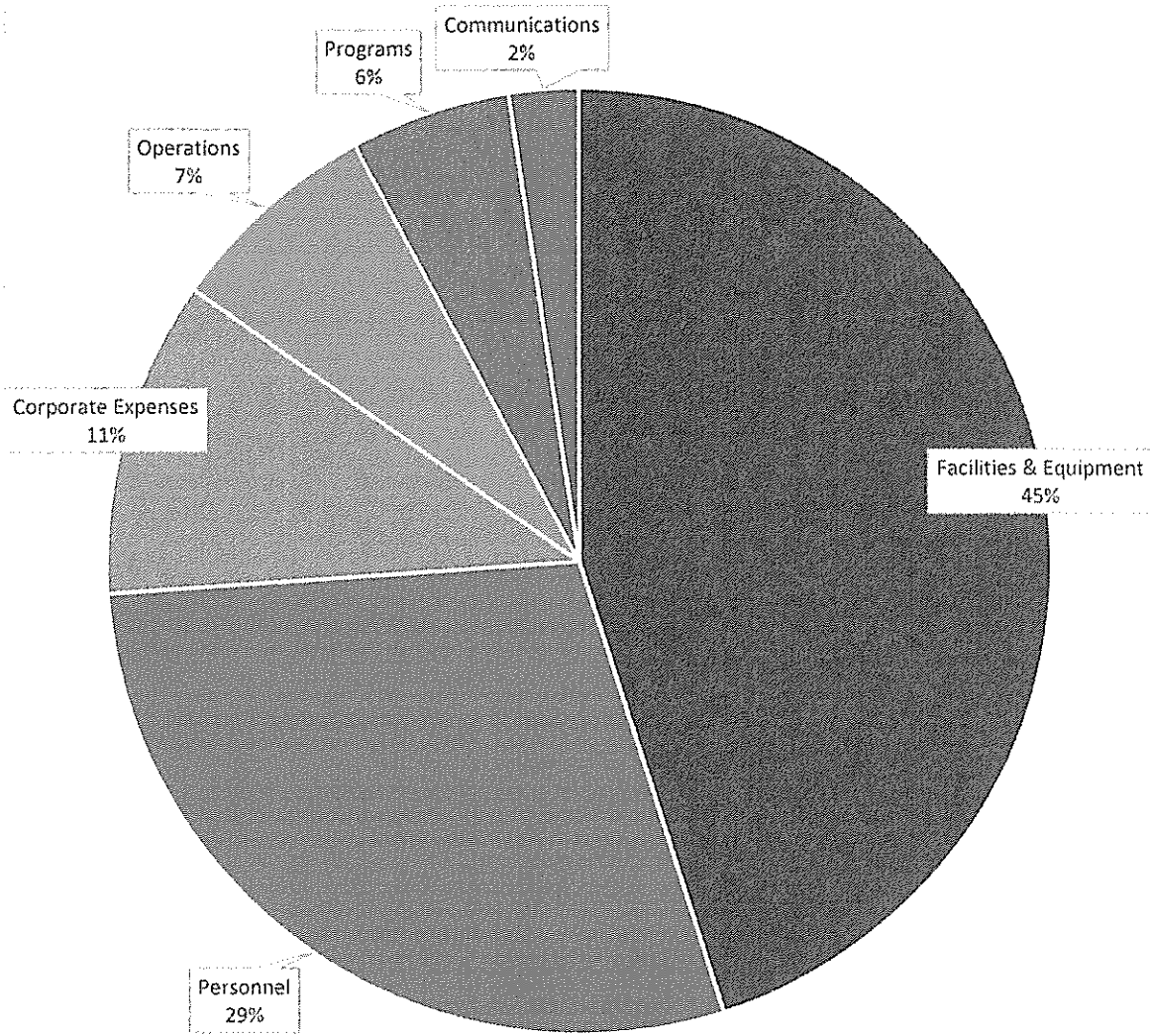
The primary intent of this discussion is to focus on the prior increase of expenses and to gain a perspective of where the costs are at a high level. Remember, Facilities and Personnel costs make up 80% of our budget and drove 74% of the total increases over the past 5 years according to the attached chart. GVR certainly does need to continue to monitor our expense increases with the current data available. While GVR cannot perfectly predict the future, the information available indicates GVR's expenses will not continue anywhere near the rate experience over the past 5 years. The prior increases were due to a concerted effort to move GVR from a simpler and more informal business to a more planned purposeful professional organization. Now that the professional staff and the reserve study has been established, GVR doesn't expect to see these types of increases in the near future beyond normal inflation. The concern for sustainability is substantially lessened. In conclusion, the 9.9% average increase in Facilities related cost experienced over the past five years is the largest driver of our prior 7.5% average total increase. This level of increase is not planned for the near future and is projected to be around 2.8% and will produce a much lower annual expense increase rate.

One thing that always mitigates any expense increases is increases in revenues. While annual total Revenue increases averaged 5.1% over the past 5 years, it has slowed down to a 1.1% average annual increase over the past 3 years. Consistent CPI based increases for Dues over the next few years should help offset some expenses and maintain GVR on a healthy sustainable course.

GVR Historical Summary

	2015	2016	2017	2018	2019	2020	5 Year Increase		3 Year Increase	
	Actual	Actual	Actual	Actual	Actual	Budget	Total	Annual	Total	Annual
Revenue										
Member dues	6,037,806	6,402,286	6,627,415	6,690,385	6,712,673	6,717,125	11%	2.3%	1%	0.5%
Life care, Transfers, Tena	366,552	626,047	777,582	746,853	777,911	618,000	69%	13.7%	-21%	-6.8%
NMCF/Initial Fees (Capital I	1,790,880	2,007,135	2,439,129	2,345,508	2,423,079	2,535,200	42%	6.3%	4%	1.3%
Programs	287,658	361,053	368,192	360,835	251,200	336,000	17%	3.4%	-9%	-2.9%
Instructional	411,014	388,904	379,167	375,673	408,797	460,000	12%	2.4%	21%	7.1%
Recreational Income	8,893,910	9,785,425	10,591,485	10,519,254	10,573,660	10,666,325	20%	4.0%	1%	0.2%
Investment Income	28,207	227,910	271,889	323,151	355,625	377,651	1239%	247.8%	39%	13.0%
Advertising Income	2,132	30,870	59,550	108,861	129,559	110,000	5059%	1011.9%	85%	28.2%
Communication - (Cell Tow	35,003	62,946	56,133	43,358	38,378	36,000	3%	0.6%	-36%	-12.0%
Communications Income	37,135	93,816	115,683	152,219	167,937	146,000	293%	58.6%	26%	8.7%
Other Income	108,034	19,301	20,753	22,373	91,492	100,500	-7%	-1.4%	384%	128.1%
Facility Rent	16,440	21,204	15,435	25,543	72,017	100,000	508%	101.7%	548%	182.6%
Marketing Events	0	0	345	0	0	3,000				
In-Kind Contributions					359,387					
Other Income	124,474	40,505	36,533	47,916	522,896	203,500	63%	12.7%	457%	152.3%
Total Revenue	9,083,726	10,147,656	11,015,590	11,042,540	11,620,118	11,393,476	25%	5.1%	3%	1.1%
Expenses										
Major Projects-Repair & Ma	265,989	284,249	356,288	500,790	597,466	265,148	0%	-0.1%	-26%	-8.5%
Facilities Maintenance	184,831	258,793	222,262	260,502	160,960	704,554	281%	56.2%	217%	72.3%
Fees & Assessments	9,875	9,419	17,570	13,710	37,629	78,716	697%	139.4%	348%	116.0%
Utilities	875,750	840,023	886,644	933,502	871,509	892,031	2%	0.4%	1%	0.2%
Depreciation	1,273,006	1,294,903	1,262,126	1,474,941	1,603,077	1,869,644	47%	9.4%	48%	16.0%
Furniture & Equipment	119,808	138,874	170,548	239,916	255,750	264,764	121%	24.2%	55%	18.4%
Vehicles	49,553	66,331	60,434	59,869	67,644	73,624	49%	9.7%	22%	7.3%
Facilities & Equipment	2,778,812	2,892,592	2,975,872	3,483,230	3,594,035	4,148,481	49%	9.9%	39%	13.1%
Wages, Benefits, Payroll Ex	3,813,465	4,222,008	4,481,186	4,601,298	4,713,352	4,616,520	21%	4.2%	3%	1.0%
Conference & Training	16,601	25,524	29,221	58,098	36,318	88,000	430%	86.0%	201%	67.1%
Personnel	3,830,066	4,247,532	4,510,407	4,659,396	4,751,670	4,704,520	23%	4.6%	4%	1.4%
Food & Catering	37,051	36,950	36,888	44,018	37,374	45,031	22%	4.3%	22%	7.4%
Recreation Contracts	541,441	721,166	660,109	622,585	556,121	632,750	17%	3.4%	-4%	-1.4%
Bank & Credit Card Fees	28,016	55,909	90,487	70,539	94,119	96,146	243%	48.6%	6%	2.1%
Programs	606,508	814,025	787,484	737,142	687,614	773,927	28%	5.5%	-2%	-0.6%
Communications	84,590	85,570	90,020	93,552	94,690	104,149	23%	4.6%	16%	5.2%
Printing	45,907	54,549	55,859	93,288	94,837	94,497	106%	21.2%	69%	23.1%
Advertising	1,313	15,668	5,572	3,734	0	5,000	281%	56.2%	-10%	-3.4%
Communications	131,810	155,787	151,451	190,574	189,527	203,646	54%	10.9%	34%	11.5%
Supplies	271,122	256,296	293,221	260,274	251,979	344,127	27%	5.4%	17%	5.8%
Postage	36,489	21,554	15,647	19,120	15,965	18,500	-49%	-9.9%	18%	6.1%
Dues & Subscriptions	8,244	10,121	9,781	11,084	12,820	8,102	-2%	-0.3%	-17%	-5.7%
Travel & Entertainment	12,763	10,179	20,373	5,220	8,065	16,580	30%	6.0%	-19%	-6.2%
Other Operating Expenses	13,692	14,181	64,188	31,982	91,557	178,260	1202%	240.4%	178%	59.2%
Operations	342,310	312,331	403,210	327,680	380,386	565,569	65%	13.0%	40%	13.4%
Information Technology	54,424	34,413	22,214	360,325	64,849	114,900	111%	22.2%	417%	139.1%
Professional Fees	120,355	293,731	143,562	225,219	293,818	311,749	159%	31.8%	117%	39.1%
Commercial Insurance	192,806	184,153	222,303	196,848	273,075	280,000	45%	9.0%	26%	8.7%
Taxes	15,091	10,021	19,079	20,750	20,367	18,000	19%	3.9%	-6%	-1.9%
Provision for Bad Debt	36,901	61,718	70,643	80,744	33,925	24,000	-35%	-7.0%	-66%	-22.0%
Corporate Expenses	419,577	584,036	477,801	883,886	686,034	748,649	78%	15.7%	57%	18.9%
Total Expenses:	8,109,083	9,006,303	9,306,225	10,281,908	10,289,266	11,144,792	37%	7.5%	20%	6.6%
Surplus	974,643	1,141,353	1,709,365	760,632	1,330,852	248,684				
Unrealized (gains)/Losses	0	(118,802)	(173,059)	(265,464)	724,387	0				
Change in Net Assets	974,643	1,022,551	1,536,306	495,168	2,055,239	248,684				

5 Year Expense Increase Components



■ Facilities & Equipment ■ Personnel ■ Corporate Expenses ■ Operations ■ Programs ■ Communications