Minutes – Finance Committee Meeting

January 29, 2024, 4:30 pm

Present at last meeting: Will Vizzard (m), Don Landsittel (m), Nina White (m), Susan Timmer (m), Dusty Favichia (Manager), Bill Henle (Board liaison), Karla Chung (First Service Financial); Observers: Ashley Tangeraas, Karen Lowrey, Markus Dascher, Cheryl Nelson, Christina George, Peter Pelkofer.

1) Approval of November minutes – Approved via email. Link to Zoom recording of meeting: https://nepenthehoa.com/finance-committee/

2) Karla Chung, First Service Financial, Senior Vice President- Ms. Chung advised the FC that in the next 2 weeks, there will be $4m in CDs ready to roll over. Ms. Chung examined the spending rates from our last fiscal year to extrapolate next year's cash flow forecast and noted the amount of cash readily available (in money market accounts). With this information, she constructed a proposed ladder of investments instruments that varied in length of their term, providing us with cash when we are likely to need it in the next 3 months. She stated that according to their analyses, peak long-term interest rates were hit in the fall and that the Fed is poised to reduce interest rates later this year. For these reason, she believed there were advantages to locking in longer-term intstruments as much as we were able.

   As background on the investment strategy for Nepenthe, Ms. Chung stated that the Stirling-Davis Act governs the management and operation of HOAs. These laws state that HOA Reserve Funds can only be invested in Federally insured products or credit-union products. The HOA's liquidity needs primarily determine its investment strategy. When CDs mature, current standard operating procedure is that they be automatically rolled over into 30-day instruments if a decision has not already been made about their disposition.

   As background First Service Financial and their relationship with Morgan Stanley, Ms. Chung stated that First Service involves Morgan Stanley when the HOA has substantial funds and could benefit by having a brokerage account to improve efficiency and oversight. First Service does not earn any money from Morgan Stanley. Morgan Stanley waves all maintenance fees for clients of First Service Residential.

   After some discussion Mr. Vizzard moved to recommend that the Board accept First Service Financial's proposal with the caveat that the Board re-examine HOA liquidity needs in conjunction with management. Mr. Landsittel seconded the motion. The motion passed unanimously.

3) Updates from Management/ Board
   a. Siding and painting- Mr. Henle stated that Phase 1 is now scheduled to finish late June/early July.
   b. Landscape- No news on landscape
   c. Flood insurance- Because of a problem with timing in getting the invoice for premiums, management awareness and communication with First Service, there was some delay in payment of invoices. As a result, homeowners received cancellation letters before receiving confirmation of their flood policies. Mr. Landsittle asked about the effects of this mixup on mortgagors. Mr. Henle stated

that there would be no issues for mortgage lenders because Nepenthe is not in a flood zone, so insurance is not required.

4) Reserve study: questions, issues for next year (running list for Browning)
   a. Siding-
      i. What is the impact on the reserve study of using a product with a higher anticipated useful life than T1-11?
      ii. Extending siding cycle from 6year to 12 years
   b. Painting-
      i. Make sure that paint cycle syncs with the siding cycle.
      ii. Determine whether there is value in Including a mid-cycle touch up
      iii. What is lifespan of the current painting product
   c. Tennis courts-
      i. Resealing costs
      ii. Elmhurst courts
   d. Landscape-
      i. Turf irrigation changes per AB1572

5) Old business:
   a. 2023 Landscape expenditures- Ms. White asked how we deal with the fact that our reserve funds were expected to be $653K higher than they actually were. Timmer explained that the reserve totals are trued-up at the end of each year. In other words, expectations are adjusted according to the actual amounts. Additionally, Browning uses actual spending and reserve totals to generate his yearly reserve study. In this way any changes between what was expected and what actually happened is incorporated into a new plan ensuring that we have enough money to pay for planned expenses each year over 30 years. This $653K will be recouped over many years by cutting costs and increasing reserve contributions. Timmer stated that the reserve study has a 3-5% increase in reserve contributions built into the plan over 30 years. Mr. Landsittel emphasized the importance of considering revenues and savings to avoid a deeper hole.
   b. 2023 Landscape expenditures Ms. White mentioned her concern that we paid some landscape-related contracts before they were complete. Mr. Vizzard agreed that this was concerning.
   c. Budget forum- Ms. Timmer stated that Ms. Foust requested that we push the Budget Forum originally planned for March back to the end of the summer.
   d. Water Billing- Wood-Rogers was contracted to orchestrate the process of billing the HOA for water use. The billing conversion must be made by 2025.

6) New business:
   a. Siding- projected costs- After a discussion of the need for more information about the durability of DuraTemp siding so that Browning could make more accurate projections about future siding costs, Ms. White volunteered to count the total number of siding panels in each type of unit. The FC agreed that it would help.
   b. Budget meeting with Browning- The Board will meet with Browning in February to hear about the Reserve Study plan. Timmer will be invited to that meeting.

7) Next meeting- February 26, 2024