Date: June 16, 2017

To: Columbia Association Board of Directors (CA Board)

From: Jane Dembner, AICP, Director of Planning and Community Affairs on Behalf of the Assessment Share Formula Work Team

Subject: Assessment Share Formula: Draft Proposed Recommendations

DESIRED RESULTS AND TIMEFRAME

This memo provides the proposed assessment share methodology and the resulting recommendations of the Assessment Share Formula Work Team. We are providing this information on behalf of the Work Team for the CA Board's review and consideration as the first step towards updating the formula as part of the FY19 budget process. Our goal for June 22nd is to gain your insights, answer your questions and come away from the discussion with suggested modifications or further analysis. Our next step is to hold a similar review and discussion session with the Village Managers. That is scheduled for June 23rd. Following the meeting with the village managers, the Work Team will consider the comments and suggestions and, as needed, prepare a revised recommendation for the CA Board's consideration in the fall as part of the FY 19/20 budget process.

BACKGROUND

The Assessment Share Formula Work Team was charged with reviewing and evaluating the current Assessment Share Formula and proposing an updated formula. In addition, the Work Team was charged with reviewing the Contingency Fund and recommending changes to it and cash reserve caps, as needed. The Work Team was given the goal of June 2017 to prepare our recommendations so as to provide ample time for review by village community associations and the CA Board early in the consideration of CA's FY19/20 budget.

The Work Team was chaired by the Director of Planning and Community Affairs and was comprised of Craig Barton and Kristin Shulder, village managers for Owen Brown and Wilde Lake village associations, respectively; and Lynn Schwartz and Julie Goad of the finance department. The Work Team began work in November 2016 and has met more than a dozen times in the intervening months.

<u>Formula Overview</u>: The formula is used to calculate the amount of funds provided annually to each village association. This annual funding supplements revenue earned by

each association from the management and rental of CA's community and neighborhood buildings as well as association programming fees.

The last update to the allocation formula was approved by the CA Board in July 2012 and went into effect the following fiscal year (FY14). When approved by the CA Board, it was with the recommendation that the formula be reviewed/updated in five years.

Village Contingency Fund Overview: The purpose of the Contingency Fund is to address the exceptional needs of an association or a one-time expense shared by a majority of the associations. It is funded by contributions from the associations' excess funds: any unspent association funds greater than 15 percent of the previous year's operating expenses, as specified in the Management Contract, are remitted to CA and added to the Contingency Fund. The amount in the Contingency Fund presently is over $400,000 and, has been used only four times in the last five years and only seven times in the last ten years, total.

Search for Comparable Organizations Not Fruitful

The Work Team originally sought to benchmark the Columbia village associations against other similar entities to better understand revenue-generation potential as well as expenditure levels. These included agencies such as community centers, houses of worship, and other non-profit organizations. However, the Work Team found no good fits. Each organization is different and none identified had the mix of association services and facility management that Columbia's villages do and there was no easy way to compare apples and oranges either on expenses or revenues or mission.

RECOMMENDATIONS

Recommended changes to both the Assessment Share Formula and the Village Contingency Fund are below.

Assessment Formula

After evaluating the current formula, the Work Team found that the method by which the funds are currently allocated needs to be revised. The existing formula is complex. In addition, the Work Team found that the current formula focuses too heavily on facilities, rather than the village associations' main purpose, namely enhancing/building a sense of community cohesion (events, resident services and information exchange), elections, and covenant enforcement. At the same time, the current formula uses potential income generation as a reduction to a village association's potential share, thus functioning, unintentionally, as a disincentive for productivity rather than an incentive. With this in mind, the Work Team drafted a new formula that separates out the two unique aspects of a village association's work: the mission/association functions and the facility management related functions. This is explained below.

The proposed formula is comprised of two parts: a Mission/Association Share; and a Facility Share/Credit. The Mission/Association Share are funds needed to carry out the mission of the village associations. This amount is designed to be the larger of the two parts, since income generation from mission-related activities is relatively minor, and it considers the total operational cost of an association. On the other hand, the Facility

Share/Credit is a subsidy allocated to the village associations by CA to help defray some[1] of the costs associated with the management of CA community buildings. The Facility Share/Credit is proposed to be a much smaller amount, since all the income generated from the rental of the facility is maintained by each village association and, in turn, covers much of the costs incurred. The subsidy allows for the villages associations to provide free or reduced rental space for various civic groups and annual charge-paying residents of Columbia.

Mission/Association Share Components: Formula Explanation

Base Amount**.** This is designed to cover the fixed or base amount of mission-related expenses of each village association regardless of size. Calculated from the FY16 expenses of each village association in the following categories: fees, operating and business expenses, insurance (directors & officers insurance only at $3,000), other printing, donations, taxes, and furniture and fixtures (only 1/2). The high and low village association expenditure from each category was removed and an average from the remaining eight village associations was calculated. All the averages were then added together to determine a base amount.

Village Manager Credit**.** Each village association to be allotted the cost of a Village Manager as determined by the 2016 Salary Study. Amount calculated at the 50th percentile, plus 401K and taxes.

Covenant Credit**.** Based on the total number of all properties, in each village, which pay the annual charge. Calculated by first determining the average number of properties per village (2,650) divided by the 50th percentile of a full-time Covenant Advisor salary, plus 401k and taxes. This provides a result of $22.31 that is then multiplied by the village's total number of properties paying the annual charge.

Population Credit. To account for the variances in the population of each village, a credit is proposed to be given to cover the cost of Special Events and Newsletters (or communications). The average cost for these two items per village association is $35,216, after removing the high and low. When divided by the average population of a village of 8,022, the result is $4.39 per person. This result is then multiplied by each village's population (2017 estimate) resulting in the amount of the credit.

Facility Share/Credit Components: Formula Explanation

Facility Credit/Share. The total expenses in FY16 for Janitorial Expense & Wages, Utilities and Repairs & Maintenance ($854,054) divided by the total square footage of all the facilities equal $7.79 per square foot. This amount is then multiplied by the total square footage of the Community and Neighborhood Centers for each village.

NEW FORMULA ALLOCATION SHARE AMOUNTS AND RECOMMENDED PHASE-IN

The total proposed Assessment Share remains, essentially, consistent with the total FY18 funding amount of the current assessment formula.

[1] Not included is the general liability insurance, ½ the cost of fixtures and furnishings and staff salaries related to management of the facilities. These costs are to be borne by the income generated by the villages through rental of the facilities.

All village assessments under the recommended new formula would change, half rising and half decreasing. Because of this, the Work Team suggests a three-year, phase-in of equal amounts (33%) per year to help villages adjust to the new share amount. The calculations and results of the recommended formula will be explained and presented at the June 22 CA Board meeting.

VILLAGE CONTINGENCY FUND RECOMMENDATION

It is the Work Team's recommendation that the cap on the Excess Cash Reserves be doubled from 15 percent to 30 percent, since the current low cap rate can act as a disincentive on the efficiency of both revenue and expense of a village's operation. Increasing the cap provides an incentive for each village to optimally manage its operation, and provides greater capacity for each village to save more funds to spend as they see fit or to hold in their own rainy day or contingency fund. Any amount of excess cash above the 30 percent would be returned to CA. CA would use these funds to offset expenditures made on behalf of the village associations.

In parallel with the increase in the cap on excess cash reserves from 15 percent to 30 percent, the Work Team recommends that existing Village Contingency Fund be eliminated and further recommends that the existing fund balance be allocated equally between CA and the village associations with each village receiving an equal amount. This would be a one-time disbursement to each village association of approximately $20,000 in FY 19.

RECOMMENDATIONS RELATED TO ITEMS OUTSIDE THE ASSESSMENT SHARE FORMULA

Employer-Paid Benefits

CA pays for the employer-paid benefits for health, short-term disability and life insurance for village association employees. This is done outside and in addition to the assessment share formula amount. The Work Team recommends that there be no change at this time to this arrangement that provides for high-quality benefits for the village association employees.

Property Standards Evaluation

From time to time some (but not all) village associations decide to undertake a curbside evaluation of each covenant-controlled property in the village. This is called a Property Standards Evaluation (PSE). The village hires a contractor to take on this work. As part of the budget, and in addition to the assessment share amount, the village requests CA funding to undertake the evaluation. The most recent funding was in the amount of $25,000 for one village. Given that the Work Team recommends a new formula and recommends a doubling of the amount of allowable cash reserves for the village associations, the Work Team recommends that when a village seeks to undertake the PSE, that they plan for and do so at their own expense based on their budget priorities.

FUTURE FORMULA REVIEW SCHEDULE

The Work Team further recommends that the formula's variables, i.e., village population, property lots within each village that are assessed the annual charge, and square footage of CA neighborhood and community buildings located in each village be reviewed and updated every two years. The entire formula should be reviewed and evaluated in FY24, or five years, in time for inclusion in the subsequent two year budget cycle of FY25/26.

NEXT STEPS

Following the meeting with the village managers on June 23, the Work Team will consider the comments and suggestions and, as needed, prepare a revised recommendation for the CA Board's consideration in the fall as part of the FY 19/20 budget process.