

## REPORT OF CITIZEN VOLUNTEER SUBCOMMITTEE RC- I

Citizen Volunteer Subcommittee RC- I was charged with reviewing the financial controls, sources, and uses of funds of and by the Property Owners Recreation Center ("PORC"). Subcommittee members are Carol Fishman, Jean Hiestand, Al Sill, and Marty Yonas. A statement of the issues within the scope of Subcommittee RC-I's assignment, as prepared by the PORC Operating Committee, is attached.

Subcommittee members met with Dick Sayers, Chairman of the PORC Operating Committee, and Nat Malcolm, PORC Manager, to obtain background information. They also reviewed the covenants of the Kiawah Island Community Association and the Development Agreement between the Town of Kiawah Island and Kiawah Resort Associates, as those document bear on the operation of the PORC, and met to discuss the issues with which the Subcommittee was charged.

The Subcommittee believes that the questions it has been asked to address are interrelated, and inseparable from, the work of RC-2 and RC-3. Subcommittee RC-3 is addressing the extent to which the PORC should be the focal point for community-building, and the question of additional facilities will be addressed by RC-2. How these issues are resolved will impact -- and possibly determine -- which longer-range options are the most workable. In the Subcommittee's view, recommendations as to long-range financing options are best deferred until the issues assigned to the other two RC subcommittees are further developed and/or resolved.

At this stage, Subcommittee RC- I is able to state the following:

First, with respect to the first question -- whether there is a need for greater control, visibility, and integration of PORC budgets within KICA's General Fund -- the subcommittee has discovered no reason to believe that either controls or visibility is currently inadequate. There was little in the focus group summaries to suggest that these are concerns of the KICA membership, In the subcommittee's view, the question of controls is properly resolved at the KICA staff level, with advice from the Financial Advisory Committee. On visibility, the subcommittee believes that the PORC budget is already highly visible in that it is set out separately in the

budget materials distributed to all property owners in connection with the Annual Meeting. As for the third area covered by this question -- whether the PORC budget should be integrated into KICA's General Fund and shown as a separate department, the subcommittee sees no particular advantages or disadvantages to such a course of action.

The second question that the subcommittee was asked to address is what should be the financial goals of the PORC in regard to capital reserves as well as repair and replacement. The subcommittee is in agreement that nothing in the covenants appears to require that the PORC be treated differently from other Common Properties with respect to these issues. Under the covenants, once the Association takes title, Purchased Common Properties have exactly the same status as Common Properties generally or Restricted Common Properties. For example, Article V, Section 2 says that the Annual Assessments may be used for the improvement, maintenance, enhancement, enlargement, and operation of Common Properties, Restricted Common Properties, and Purchased Common Properties Article VI, Section 2 authorizes the maintenance of Purchased Common Properties from receipts of either Annual Assessments or Special Assessments. Under Article VI, Section 6, the Association is authorized to borrow funds for performance of all of its functions. And the Reserve Fund section (Article V, Section 6) does not limit the use of NM&R funds to non-Purchased Common Properties.

The subcommittee does understand that use, of MR&R funds is currently limited to "infrastructure," and there may be a legal question whether the PORC properties qualify as "infrastructure." Although that legal question is beyond the scope of the subcommittee's expertise, two members of the subcommittee think it would be desirable, if possible, to permit MR.&R funds to be used to help fund improvements to the PORC (including, at a minimum, the replacement of the swimming pool and whatever additional site improvements are approved in connection therewith), or, if that is not possible (legally or politically), loaned to the PORC for an extended term. They think it likely that permitted increases in the Annual Assessments will be sufficient to pay off such loan. The views of the other two subcommittee members are stated in the attachments.

Finally, the subcommittee observes that, if MMR funds can be used to fund repair and replacement of the present

facilities, repair and replacement reserves for the PORC itself will be unnecessary. If loans are used, reserves will need to be budgeted but will go toward liquidating the loan,

The next question the subcommittee has been asked to address is the extent to which the PORC income should derive from annual fees and the extent to which it should be derived from user fees. More generally, the question is posed: Could or should the Center be self-supporting?

The subcommittee was briefed on the current fee structure. Currently, Annual Assessments and the resident owner surcharges together account for approximately 85 percent of the PORC budget. Additional revenues derive from interest (approximately 3 percent) and from user fees (approximately 12 percent). Current revenues are substantially in excess of expenses, before depreciation. However, depreciation results in a deficit. Under the covenants, the annual Amenity Assessment may increase by up to 10 percent per year.

At the present level of operation, and assuming only modest inflation and a 10 percent annual increase in the Amenity Assessment, it appears that the present "paper" deficit will resolve itself within the next few years. Nonetheless, it may be desirable to keep the annual Amenity Assessment increases as low as possible to satisfy those property owners who claim to derive little or no personal benefit from the facility.

The Operating Committee appears to be cognizant of the importance of these issues and has repeatedly reassessed user fees in various areas. Because the subcommittee lacks information on the Operating Committee's philosophy and methodology, it is not in a position to assess the appropriateness of what is now being done. It does appear to the subcommittee that the following principles should be paramount: The subcommittee believes that, in considering the issue of user fees, it is desirable to differentiate between user fees for activities open to all property owners (such as athletic, civic, and club activities) and purely private activities (such as weddings, cocktail parties, etc.)' The subcommittee sees no reason why fees for purely private activities should not be comparable (or at least nearly comparable) to actual private market costs, as there is no offsetting community benefit from such

activities. On the other hand, there are such benefits from all-owner functions, and there is merit to a fee structure for such activities that covers direct costs but not overhead and profit.

A majority of the subcommittee believes that it is desirable that PORC operations be self-supporting if that can be done without sacrificing the community nature of the facility. They note that the present covenants do not require that it be self-supporting and they do not favor changes in the present structure, although they agree that it might be possible to add additional fees for particular activities. One member believes that the facility should become a private facility open to property owners who choose to become members; whether that entity would or would not be self-supporting would no longer be a concern of KICA.

The final question the subcommittee has been asked to address is whether the PORC should have access to funds generated by the real estate transfer fee, ATAX, debt financing, or other sources. As noted above, the subcommittee supports debt financing, if necessary, for the new pool and related facilities. One member has suggested that the real estate transfer fee could be increased, with the proceeds devoted to establishing capital reserves for the PORC, but this is coupled with a suggestion that the PORC then become a private, non-community-wide membership club. The other committee members do not support either an increase in the transfer fee or turning the PORC into a private club. Under the terms of the referendum approving the real estate transfer fee, all proceeds now go to the MMR fund; the issue of using N4R&R funds for the PORC is discussed above. The subcommittee does not see any way that ATAX money could be used to support the PORC unless its facilities were opened to tourists, which the subcommittee would oppose.

As noted above, the subcommittee's observations are necessarily preliminary at this stage.

'Some have suggested that higher rates be charged for private functions that in reality are being hosted by non-owners, even though an owner makes the reservation. The subcommittee does not believe that it is practical to differentiate this way and that it would raise all kinds of fact-finding issues that the staff should not be required to handle. Rather, it believes that all functions should be

in the name of and the financial responsibility of property owners, whether or not they are the ultimate hosts or payers.

The members would be pleased to assist KICA at a later stage once the subcommittees dealing with programmatic issues have completed their work and the Operating Committee and Board have had a chance to consider their proposals.

Carol Fishman, Jean Hiestand, Al Sill, & Marty Yonas  
(Mr. Hiestand is out of town and has not reviewed the final version of the report.)

KIAWAH ISLAND COMMUNITY ASSOCIATION PROPERTY OWNERS  
RECREATION CENTER  
OPERATING COMMITTEE

LONG RANGE PLAN February 7, 1 M

#### #4 Review of Financial Controls, Sources, and Uses of Funds

Various inputs hold divergent views about whether the Recreation Center should grow, retrench, or hold constant. Some believe the Center should act like a private club and be entirely self-supporting, while others hold it as a community resource that should be growing to support the growing community. Some would like greater visibility of expenses. The Committee itself suggested now was the time to consider integrating the Recreation Center budget into the KICA general fund as a separate department. Some review of how the Centers reserve funds are treated and controlled may also be advisable. Most importantly, if the Center is to provide its mission services to an expanding population, thought must be given to how funds for such growth will be provided, whether from general assessment, special assessment, general reserves, or special reserves.

1) Is there a need for greater control, visibility, and integration of Recreation Center Budgets within KICA General Fund?

2) What should the financial goals of the Recreation Center be in regards to capital reserves as well as repair and replacement. How should these funds be used'?

3) What portion of Recreation Center income should come from annual fees and what portion from users? Could or should the Center be self-supporting?

4) Should the Recreation Center have access to funds generated by the real estate transfer fee, ATAX funds, debt financing, other?

Minority Report ADDITIONAL CONDITIONS TO BE IMPOSED IF M R & R FUNDS ARE USED TO REPAIR, REPLACE OR IMPROVE PORC FACILITIES Subcommittee RC-1 was charged with reviewing the financial controls, sources and uses of funds of and by the Property Owners Recreation Center.

A problem exists which needs to be faced and probably requires a long range plan for successful resolution. This problem is the current source of funds for PORC and is a problem because the funds are largely gathered by special annual assessment of all property owners. The majority of those so assessed probably do not use the facilities and probably feel they should not be providing to a minority of property owners, a low cost recreational facility. Anecdotal evidence to support this probability is found in the unwillingness of the PORC Operating Committee and the KICA Board to conduct a referendum seeking an assessment to raise funds for a PORC capital project because "it would not pass". Simply stated the problem (for the majority) is that they are being assessed to provide relatively few with an attractive benefit. If left unaddressed it's just a matter of time until the majority vote to unfund this benefit for the few. I think this is exactly the type issue that should be addressed in the long range planning effort.

I think the solution to the problem lies within these guidelines:

A.) The size and scope of the PORC facilities and operations should reflect the needs and desires of the people who want to use the facilities. It does now but is advertised as open to all but is not capable of adequately handling all members if all were inclined to be active members.

B.) People who use the facility should pay the operating costs of the facility including depreciation in a billing format of annual membership fees plus user fees. This provides recreational facilities at a market-related (unsubsidized) cost to users/members.

C.) Those who choose to be non-members should not pay an annual membership fee.

D.) Under these conditions, The M R & R fund should be a source of funds for major repairs and capital expenditures of PORC. In so doing KICA would certainly meet any (implied) obligation to furnish a pool or recreational facility, but would move away from the divisive concept that it will be subsidized by many for few.

A.J.Sill

JEAN C. HIESTAND  
SEPARATE COMMENTS

The Report observes that the work of this subcommittee, RC-1 is "interrelated and inseparable from" the work of the RC-2 and RC-3 subcommittees. In my view, the interrelationship goes much farther. The building and financing of a new swimming pool at the PORC, and especially the use of MR & R funds to build the pool should not be done without reminding ourselves that there will be much more capital needed for replacement of infrastructure and other capital assets of KICA.

Though the subcommittee report correctly points out that "nothing in the covenants appears to require that PORC be treated differently from other Common Properties", the covenants do not require that PORC, in replacing the swimming pool, be treated exactly the same. Maintenance of the Second Gate is not treated the same, and assessments for residents of remote neighborhoods such as Terrapin and Summer Islands are not treated the same nor should they be, in my opinion.

Concerning the building of the swimming pool, I believe:

1. Funds can be "borrowed" from MR & R Reserves, but with agreement that the loan be repaid, in a reasonable period of time and with appropriate interest.
2. PORC should make arrangements, within its own budget process, to pay off the loan and become self-sustaining. It should not assume, as this report does, that "At the

present level of operation and a 10 percent increase in the Amenity Assessment, that the present 'paper' deficit will resolve itself within the next few years". Other large capital expenditures

of KICA are inevitable, and spending on PORC projects is surely related to similar and inevitable KICA expenditures.

3. I believe that the interests of the entire KICA membership in having a facility such as the Sandcastle justifies providing PORC with a reasonable contribution from the Association's funds, provided the total budget of the facility remains in balance. To such an end, I support the view that each PORC activity should generate a reasonable fee, reflecting its cost and its benefits to users. Fees to non-members should, of course, be greater than those charged KICA members.

The specific issue with which we are dealing, the replacement of the swimming pool, is relatively minor in and of itself. However, it can and should serve as a model and precedent as similar issues arise concerning KICA's responsibilities throughout the island.