



May 7, 2019

Dear Homeowners,

The Board of Directors held our spring meeting on April 27th and the following is an update of our activities. We reviewed the projected 2018/19 operating results and the Board is pleased to report that all operations are expected to come in at/or better than budget with anticipated surpluses in the Club and Garden Level Rental operations being dedicated toward the Association's capital reserve funding plan. Additionally, as a benefit to participants, the Lodging Program surpluses will be returned to current participants in the form of complimentary deep cleans this spring.

As we move forward to a new fiscal year, the Board reviewed and approved the 2019/20 Capital Plan which includes the special assessment projects in both the annual and 10 year plans. The major projects for this construction season include the deck replacement project at Building 13 and stair tower refurbishment, Townhome exteriors D, G, H, I and L, and the common area hallways in Building 11 (see the following photos of this recent progress).

During our meeting, we also looked at design options and considered bids for the upcoming Club locker room remodel. The plans are much more extensive than originally contemplated which greatly improves both functionality and aesthetics. The new design also accomplishes meeting ADA requirements while continuing to preserve both the sauna and steam room amenities in each locker room.

The Board decided that adequate funding is currently in place to accelerate the project and complete both the Men's and Women's locker rooms this fiscal year. To accomplish this, locker room construction is planned to begin on Monday, August 12th. As would be expected, the locker rooms will be closed throughout the construction and will re-open in mid-December. All of the other club facilities and amenities will remain open during the remodel so owners and members can still use the club. We realize this will be an inconvenience for some users, however the end result will be an impressive improvement to our property and one in which we can all enjoy for many years to come.

The Board reviewed and approved the proposed operating budget for fiscal year 2019/20 which begins on June 1, 2019. Due to slight inflationary pressures, the Board decided to raise the monthly assessments by 2.8 percent for this coming fiscal year dedicated to both the operating and capital budgets. This increase will be reflected on your statement this month along with the second half of the biannual insurance billing.

The state of Colorado has enacted a new pre-CCIOA HOA budget ratification process which provides homeowners an opportunity to consider the budget (you'll find a copy following this letter). A budget meeting has been scheduled for Friday, June 7th at 3:00 PM in the Royal Elk Meeting Room. According to the State's ratification process, the budget is not required to be approved by the owners and will be deemed approved at the budget meeting in the absence of a veto vote by a majority of all owners.



In relation to the Club, the Finance Committee noted that in order to offset depreciation its operations should be providing a more substantial contribution to the Association's capital funding and reserve balance. Even after non-cash depreciation was added back to the bottom line, the surplus margin had only covered 22% of the depreciation and therefore, did not contribute an appropriate amount toward capital funding and reserves.

The Board analyzed the situation and since Homeowner Family Memberships dues have remained the same for over 21 years, the proper amount of funding has not kept pace with operating costs and the future needs of the club. Granted we have two new tennis courts and will soon enjoy new locker rooms (both paid for through the special assessment), however we have very extensive facilities and the last major club remodel was completed in 2004.

Since 1997 homeowners have continued to enjoy artificially low membership dues resulting in a decrease in Club contributions to the capital reserve (it should be noted that outside memberships have increased over time). In reviewing the Association's 10 year capital funding plan, it has become evident that charging owner membership dues that are far below market rates is not actually a benefit to owners; it is a detriment.

It is extremely important that the Club and common areas are properly maintained in order to preserve and enhance our property values. To address this situation and make sure there is adequate capital funding, the Board concluded that it is in all homeowner's best interests to raise the monthly membership dues to \$96 per month (this increase will be reflected on your statement this month). We know that this is not a popular decision, but your Board takes our fiduciary responsibilities very seriously and this increase is the right thing to do for the well-being of the property we share together.

Our Governing Documents provide that each owner receives one Family Membership and the dues cannot be higher than rates charged for similar memberships. Even at \$96, our dues are far below others in the valley. For example, comparable Family Membership rates in the valley range from \$110 per month to over \$230 per month for memberships with fewer benefits. Please keep in mind that there is a generous number of exclusive VRCMR homeowner Club benefits that only we receive which include:

- Lower than market rates
- The Family Membership is extended for owners up and down the direct family line; grandparents, parents, children and grandchildren are all members. (This goes beyond the normal Family Membership of spouses and their children under 21)
- An Owner appreciation booklet is sent annually with special Club discounts including 10 free guest passes per year
- A \$10 guest fee when accompanying your guests (comparable day use in the valley is \$30 to \$40)

At our meeting we also studied the rental split which is at 55% to the owner, 40% to the Lodging Operation and 5% to the Club. Our goal was to better understand the business

models, what is covered in the split, how the VRCMR split compares to similar resort properties and what opportunities are available that might increase returns to participants. The study concluded:

- VRCMR operates under the Resort Model which is the best for our property
- VRCMR is operated for the benefit of participants and offers benefits to all homeowners
- VRCMR rental split is the industry norm in the valley
 - A sliding split is unique and an advantage to participants (surpluses are returned) over a fixed percentage which is at other properties
- VRCMR operates on fewer dollars than similar properties
- Owner usage is a benefit
 - However, it does affect the amount of potential operational surpluses
- There are opportunities to improve returns to participants which are currently under further investigation

The Board also reviewed the condominium natural gas fireplace conversion plan. The first phase is commencing this summer with the installation of the gas mains and the project is expected to continue through the fall of 2020. Once the infrastructure is in place, owners will receive more information regarding their building's conversion.

An item unrelated to our recent meeting; last Friday a letter from an outside attorney hired by a few Rental by Owners was received by the Board of Directors and copied to homeowners. The Board has forwarded this correspondence to the Association's counsel and the independent second attorney, and has asked for opinion letters addressing the correspondence. Once the Board has received both counsels' opinions, we will make homeowners aware of their response and recommendations. In the meantime, on counsel's advice, the RBO rules shall remain in effect.

In closing, please note that the Annual Homeowners Meeting will be **Saturday, August 10, 2019** at 2:00 PM. In addition to the fiscal year-end financial results as presented by our CPA firm, there will be various other Association and property updates.

Thank you all for your support.

Sincerely,



Fred Bradford
President