



April 29, 2020

Dear Homeowners,

The Board of Directors held our spring meeting on April 27th, the following is an update from the meeting.

First, let me assure you that the Board has been very engaged during this unprecedented time of uncertainty. Not only has the Board been reviewing current and ever-changing operations, but we are looking forward on how to best manage the operations as we proceed into next fiscal year which begins on June 1st. From the outset, the Board has worked with and supported management in making tough decisions such as closing the club, reducing hours of operations, cutting back staffing levels, not renting units for nonessential purposes, and other appropriate expense reductions with the exception of those that are absolutely necessary to sustain minimal operations and maintenance.

Expense Reductions and Fiscal Year End Projections:

In working to address the COVID-19 situation, the following are some examples of expense reductions that we've instituted:

- Drastically reducing staffing levels by 77% (including contract housekeepers). Of these we have retained our managers and most of our maintenance employees. We felt that ongoing building and property maintenance, and project work is a primary function of the HOA, and it did not make sense to ignore that responsibility. Of those still employed, many are taking accrued vacations and have been encouraged to take additional voluntary time off without pay. (Due to reduced staffing, please be patient with response times and staff's inability to immediately attend to service requests).
- Staff wage and salary reductions have been implemented which are in alignment with similar businesses in town.
- Each department's expense lines have undergone detailed scrutiny to make sure they are reduced wherever possible.
- Housekeeping is now only cleaning and sanitizing areas in the HOA building that are in use.
- The club operation has reduced utility expenses by not heating or filling the pool and hot tubs, minimized lighting throughout the building, heat is turned down, locker room amenities are turned off, etc. (One consequence of the shutdown confirmed both pool and adult hot tub leaks. The pool water level has stabilized several inches below normal levels and we are in the process of speaking with contractors regarding repairs this summer. Such repairs would be temperature sensitive and would likely require closing the pool this summer while repairs



were made. Although this expense was not budgeted for this year on our 10-year plan, the Board is currently analyzing whether or not to proceed this summer due to the high costs of water which needs to be heated and introduced into the pool to maintain the appropriate level).

- The heat tape on buildings was shut off earlier than normal.
- The trash service has been reduced to once weekly.
- All advertising buys have been suspended.
- And, the list goes on touching nearly every line item of each operation.

The good news; due to these actions the operations are projected to come in without losses (net of depreciation) as we end this fiscal year on May 31st. This is also a function of the timing of our fiscal year and fortunately, from that standpoint, most of the high producing revenue months of winter had passed before the onset of restrictions due to the Covid-19 situation. The strong winter revenue coupled with our aggressive expense reductions have provided us with financial relief as the fiscal year closes.

Payroll Protection Program Loan

In addition to making necessary cost reductions, the Association has applied for and received a Payroll Protection Program loan from the government which provides an opportunity for loan forgiveness if we keep our staff employed. As mentioned, many of our employees have been laid off or furloughed. Even though some may return to work, it is unlikely that the full amount of the loan will be forgiven, but the portion that is will greatly assist with our ongoing staff expenses and should provide some much needed assistance for our next fiscal year.

Budget Plan for Fiscal Year 2020/21

In preparing for next year, the Finance Committee worked tirelessly with Management. They ultimately reviewed 12 detailed budget iterations before settling on three scenarios for final consideration:

1. Base Case: The club budgeted at 50% of outside revenue and rentals at 42% revenue. This scenario assumes many restrictions currently in place would be lifted on a rolling basis and there would be some outside club and rental revenue beginning to pick up in July. Outside revenue climbs to 50% of normal by 5/31/21 fiscal year end. After adding back non-cash depreciation the deficit is \$206K which is about 23% of total reserves (\$62k of HOA reserves & \$144k of Rental reserves).
2. Recession: This scenario has the club budget at 60% and rentals at 70% of revenue. Following the 2008 significant market downturn, the VRC's outside revenues declined for 3 straight years. This budget case assumes the 2021 fiscal year revenue decline approximately equals what we incurred for the 3 fiscal years ending 2009, 10 and 11 combined. If the level of revenues outlined in this case were achieved, the net loss after adding back non-cash depreciation

is \$42K or 5% of total cash reserves.

3. No Outside Revenue. This scenario assumes restrictions are not lifted anytime soon and when lifted people are wary enough of travel and large gatherings (or do not have the funds) such that we have no outside rental income or outside club membership income for fiscal year 2021. In this case the physical assets and a level of leadership are maintained in order to enable the Association to affectively function when the situation turns for the better.

The Finance Committee ended up recommending, and the Board approved, the Base Case budget. This approval came with the understanding that there are many unknowns at this time and the Board will need to review and perhaps change the budget, up or down, as events unfold. The Board has never taken this approach before and does not under normal circumstances accept the idea of making budget adjustments as the fiscal year progresses. However, this year we strongly feel that with all the uncertainties it is appropriate to be flexible and make adjustments as necessary which will reflect whatever new realities present themselves. This leaves us in a situation of forecasting losses in the Club and Rental operation and the necessity of relying on the respective reserve funds to keep the operations afloat.

No Increase in Monthly Assessments, Reallocation of Operating/Capital Split

Conversely, since the HOA's budget is principally dedicated toward maintenance, utilities and common area services, this budget leaves those items intact and does not anticipate a loss. The HOA's Base Case budget does not come with an increase in Homeowner monthly assessments although there are fixed expenses, mainly in utilities, which will be significantly increasing this year.

To offset these expense increases, the Board has shifted the allocation between the operating budget and the capital budget for this fiscal year (now set at 77% operations/23% capital). While this affects much needed capital funding, the Board felt it was not appropriate to increase HOA fees to Homeowners during the crisis. Please keep in mind, that in future years this allocation should be shifted back to properly fund the property's ongoing capital needs and avoid potential special assessments. Therefore, owners should anticipate their monthly assessments will increase in future years to keep up with expense inflation.

Budget Ratification

The state of Colorado requires a budget ratification process which provides homeowners an opportunity to consider the budget. According to the State's 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. A budget meeting will be scheduled, and it is anticipated that under the circumstances this meeting will be held remotely. More information will follow in the coming weeks.

Capital Plan 2020/21

During our spring meeting, the Board reviewed and approved the 2020/21 Capital Plan which includes the previously funded 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 14 and stair tower refurbishment, Townhome exteriors on building A, B, C, and E and the initial wood burning fireplace replacements. This type of construction activity is allowed by the State and County and the Association has adopted all of the required protocols to keep the staff and contractors safe during this pandemic.

Eagle County Business Protocols

Additionally, the Association adopted the required protocols for business operations and staff, some of which are posted on the entrance doors. For the time being, the front desk will remain open from 8:30 AM to 5:00 PM each day for essential services. If you need assistance, instead of coming into the building please contact the Front Desk directly at (970) 477-3021 or text (970) 658-0675 and provide your name and unit number. Should you need to enter the building, you must be healthy and not symptomatic. While in the building please wear a mask and social distance by staying at least 6 feet away from staff or other persons who are in the vicinity.

Last Friday evening Eagle County issued an updated “safer at home” order which stipulates that County-wide restrictions are in place and travel into or around Eagle County is limited to local residents only. The order also says that anyone who is not a local resident should return home immediately. For many of our owners who wish to come to Vail, local residents are defined as persons who own, maintain, or live in a home or residence in Eagle County.

Additionally, based on the order, pools and spas must remain closed and areas with high touch equipment cannot be open unless they are thoroughly cleaned before each use. For these and other compliance concerns, such as the unavailability of disinfectant wipes and gels, and other cleaning and sanitation supplies, the club facilities will remain closed at this time. The Board has reviewed club reopening procedures and protocols and has directed management to take the appropriate steps to ensure the club facility can reopen once it can meet the requirements and ensure the safety of those using the club and staff.

The County order also stipulates that short-term rentals are not allowed at least through the month of May. The Association’s Rental operation is not soliciting rentals and RBO owners should also be in compliance with the order. There are typically not many rentals during the off season and our hope is that rentals will again be allowed sometime this summer. When rentals are once again allowed, we have developed marketing messages which we think will resonate with rental guests while practicing social distancing.

Bike Barn Storage

During our meeting, the Board once again reviewed the Bike Barn storage capacity issues. Theoretically, because there are more bikes registered than there are available spaces, the storage is oversubscribed. Also, there are several owners who are on a bike storage waitlist which, if allowed to store their bikes, would certainly exceed the storage limits. In practice there has been vacant spaces due to owners taking their bikes to their units or with them when they are not on property.

The Board considered implementing a bike storage fee to help manage the situation, however we felt due to current events the timing was not appropriate. Instead, we would like to continue with the current policy and slowly open up access to a few owners at a time who are on the waitlist. The number of bikes being stored will be monitored throughout the summer to help us better understand the ongoing actual usage. We would also like to implement a registration and bike permit system (small ID stickers for the bikes) to better control usage and identify abandoned bikes. Those owners who are currently storing their bikes will be contacted by Iris Nelson, our maintenance office manager, once the registration program is ready to begin. Also, if you are not using your bikes, please consider removing them from storage to make room for other owner's bikes. The Board will review the bike storage situation after the summer season and consider making adjustments as necessary.

Unit Deep Cleaning Available to Owners

During our meeting, the Rental Committee recommended that the regular spring deep cleaning of the units participating in the Association's rental program be postponed until after the summer season. The Committee does feel that the deep cleaning program is important and encourages all rental participants to voluntarily have their units cleaned since the winter season was busy through mid-March. Additionally, all owners are encouraged to contact JR Cruz of 3-E Cleaning to perform a full deep clean and sanitation of your unit, and also for any other cleaning needs you may have. JR can be reached at Housekeeping@VRCMR.com. More information about this program will be sent in the near future.

Heirloom Restaurant

Mike Dennis, the owner of Heirloom, sent a letter to the Board explaining their current situation and the difficulties they have experienced due to the restaurant's closure in the heart of their earnings season. As we're all aware, restaurants have been one of the hardest hit businesses since the outbreak; Heirloom is no exception. Mike's hope is to reopen the restaurant this summer, but the future is uncertain. The Board has directed Matt Ivy, our General Manager, to work directly with Heirloom to help ensure the reopening of this important property amenity.

Annual Meeting

Please note that the Annual Homeowners Meeting will be **Saturday, August 15, 2020** at 2:00 PM. It is not yet certain if an in-person meeting will be practical and we are investigating options to hold this important meeting remotely.

Conclusion

In closing, please be assured that the Board will remain engaged and continue to work with management closely throughout this difficult time. Although not scheduled yet, the Board plans to meet more frequently to review operations, protocols and to make adjustments to our budget as necessary.

Thank you all for your support. We wish you and your families good health, happiness and all the best while dealing with these uncertain times.

Sincerely,

Fred Bradford
President