MEMORANDUM

TO: CSA Board Members

FROM: Dave Borghesi, CSA Treasurer

DATE: October 17, 2018

SUBJECT: Alliance "Better" Plan

I have reviewed the Alliance's Plan to generate approximately $17 million in needed new sources of revenue over the next 6 years. What I have analyzed is the accuracy of their calculations, accepting their premises of additional funding sources, even though they are not realistically attainable goals. Cumulatively, I find that the Alliance Plan overstates revenues by **$5.3 million** from erroneous assumptions.
The following explains my findings:

1. The Alliance identifies new sources of gate fee revenues of $6.8 million from time share rentals and property owner rentals managed by the Resort. There are three errors in their calculations. Their calculation assumes all weekly gate pass fees cost $20. Currently, only such gate passes purchased at the gate are $20, otherwise all weekly gate pass fees are $15. If rentals managed by the Resort included a gate fee, (which fees are not currently required by covenants,) they would be issued from the Welcome Center and would be at the $15 weekly rate. Current passes for time share guests are pre-purchased by the time share organization at $15.

   Regarding time share rentals, currently CSA tracks non-owner usage and receives the appropriate $15 weekly rental gate fee. The Alliance plan assumes that 50% of time share rentals should be paying a guest gate pass fee. The current rate of non-owner passes issued is 19%.
   Additionally, their plan inflates these new pass revenues by a CPI index. Gates fees are a standard amount not subject to adjustment by inflation. As an example, the assumed $20 gate pass fee would increase next year to $20.40 (based on a 2% inflation factor) is not a valid assumption.
   The sum of these three errors overstates the projected sources of new gate fee revenues by **$2.8 million.**

2. The Plan assumes that commercial annual assessments, other than the Resort, are $201,000 and should be increased by 100% to $402,000 for an additional source of revenues of $1.2 million over 6 years. However, only $72,000 relates to assessments. The other $129,000 relates to non-assessable franchise or other fees which cannot be unilaterally increased. This error in understanding of the components of revenues overstates new sources of revenues by **$.8 million**.

3. The Alliance Plan calls for $.8 million in new sources of revenues from a three-year special assessment from the Resort and Other Commercial entities. The amount of additional revenue is

calculated based on a percentage of proposed assessments. There are two errors in their calculation. First, the Plan assumes that Grand Ocean access fees are commercial assessments subject to a special assessments. Grand Ocean is not a property owner, and their access fees are not subject to a special assessment of property owners. Second, as noted above, the overstatement of Other Commercial assessments also causes an overstatement of special assessment revenues. Therefore, special assessment revenues as calculated in the Alliance Plan is overstated by **$.4 million.**

4. Their Plan assumes a cost savings related to trolley operations of $450,000 per year based on a 50% cost sharing arrangement between CSA and commercial entities, assuming the annual cost is $900,000. This essentially provides an additional sources of revenue of $2.7 million over 6 years. The actual direct cost of trolley operations, which includes the purchase cost of the vehicles, is, on average, approximately $460,000 per year. There is no basis to assert a cost of $900,000 per year. (As a side note, the Alliance had recently asserted an annual cost of $800,000. Whatever their number, The Alliance assertion is just that, a statement that has never been supported by factual information.) In any event, this alleged cost sharing is not a true cost savings, but rather a service fee to be charged to the Resort and Other Commercial interests. I believe it is fair to say their Plan mischaracterizes the additional $2.7 million as a cost savings. Either way, and based on their premise of an agreement of a 50% reimbursement of costs, their projection is overstated **$1.3 million**. (It should also be widely recognized that incremental revenues from past daily gate fee agreements have significantly exceeded the full cost of trolley operations.)

The following are some personal observations:

- Their plan calls for borrowing $7.4 million dollars, of which $4.5 are placed in investments. The proposal assumes that the cost of borrowing is 1.5% greater than the return from investments over six years. Even if this were the case, economically this plan makes no sense. Why incur a cost that is unnecessary? Why use borrowing capacity when it may be needed for future emergencies? And in a rising interest rate environment (the Federal Reserve Bank is expected to increase interest rates) why would you put the community at risk for an increasing cost of borrowing against a lower return on investments?

- The plan calls for a three-year annual special assessment for residential property owners of 23.8% and the same increase for commercial properties. The Special Assessment for residential property is based on 2018 assessments. The Special assessment for commercial property first includes a 100% increase from 2018 assessments before applying the 23.8% increase. The true percentage increase on commercial and Resort entities compared to 2018 assessments is about 47%. The assertion that the Special Assessment increase between residential and commercial as being equitable is misleading.

- The elimination of a transfer fee from consideration is puzzling. The fee is charged to the buyer, not to the current property owner. The Resort and its owner, Riverstone Group, have the financial wherewithal to buy commercial properties, as it did in 2018. The Resort can become the single largest buyer of commercial property in the future, and possibly the single largest contributor to CSA funds from this fee. Why would residential property owners pass up this opportunity that the Resort is willing to approve?