The Historian

Preserving Today for Tomorrow

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The Shared Cost Concept

The following was taken from Friends of the Village President Bob Hatch's announcement of their April 5, 2012 meeting on shared costs for our recreational facilities. The speakers for that meeting were Lynne Dvorak, First Vice President of the Golden Rain Foundation (GRF) and Chair of the Community Activities Committee (CAC) which is the committee doing the study, General Manager Jerry Storage, Financial Director Betty Parker and Historical Society President Bob Ring. Former Third Mutual President Noel Hatch was the moderator.

Bob Hatch, Friends of the Village President
Photo by Pat Wilkinson

"As past chair of the GRF CAC, I have spent a great deal of time working with fellow directors on finding a fair way to balance how much individual residents should pay as a fee to use a facility and how much all residents should pay for the recreational facilities through their monthly assessment. I want to share with you the following issues and suggestions we directors developed in working on the shared cost matters.

"A cooperative or condominium housing complex, by definition, requires that costs be shared. That includes all residents sharing in the cost of any recreational facilities. Where there are multiple housing mutuals in one community, there is often a master association that manages the amenities that all the mutuals use, such as the recreation facilities, streets, buses, etc. That is the role of GRF in our Village.

"GRF costs are shared equally by manor, but the policy allows GRF to charge a rent or use fee to individual members who use a particular facility. Therefore, it is the net cost that is shared equally by all members. The total cost, less the revenue of rent/use fee is the net cost.

"The GRF shared cost policy allows the rental fee to be any amount from 1 to 99% of the total cost. There are two exceptions: the bus service and the swimming pools have no ticket cost or rental. In general, the more of the total cost paid in rental fees, the lower the cost to be shared by the members.

"This year, GRF is in the process of determining what changes, if any, should be made in the rental fees. Last year, GRF developed a formula for room rentals and has uniformly applied it to all room rental requests. However, there are many more GRF facilities and services with varying purposes, and there is no set formula to fairly determine how much a renter should pay for these.

"It would be helpful if there were a methodology to determine more exactly the percentage to be paid as rent. Such methodology would be helpful to members' understanding of how rents are established and be helpful in providing continuity to the GRF board in reviewing fees in the years to come. For instance, the facilities could be divided into categories in various ways with similar facilities being charged a similar percentage of cost as rent. Facilities could be divided between high use and low use and between high cost and low cost. Fitness centers and swimming pools are examples of high use. Shuffleboard and bocce are examples of low use. Golf is an example of high cost and tennis, low cost.

"Some low-use facilities may be the result of the number of spaces available; for instance, garden plots and recreational vehicle storage. They are exclusively used by those who lease a space. The general membership does not have access to these spaces. There are some facilities for which there is no rental. Tennis and paddle tennis are examples. In the past, it has been determined that the cost of administration would exceed possible revenue from rental fees. However, technology may make this feasible in the future.

"It has been suggested that facilities that are high use and low cost should have the lowest percentage rent. And conversely, those with the highest cost and low use should have a higher percentage rent.

"A properly designed methodology can encourage members to use facilities more efficiently. With the revision in the clubhouse room rents last year, rooms are now being reserved based more on the users' needs, rather than the users' wants. This concept, carried forward, would help ensure that we use all facilities efficiently before we build new ones.

"Last, to the extent that the GRF assessment is lowered by increasing renter fees, the housing mutuals gain more latitude in establishing their budgets."

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Shared Costs from Page 1

Ross Cortese's Philosophy

When asked for his formula for an outstanding retirement community, our visionary builder Ross Cortese said, "I have a theory that older people want to own their own quarters where they can live independently. Yet, they want to be near others in their own age group and they want to be spared maintenance details. I want to supply the basic needs of life for people 52 years and older, create a serene atmosphere of beauty, provide security, provide recreation and religious facilities and then leave the living to the individuals."

Corporate Structure

Ross Cortese, set up his development firm, Rossmoor Corporation, in 1951. Two separate not-for-profit corporations were required before any of the Leisure Worlds could be built.

The Leisure World Foundation, later replaced by PCM, would sponsor, merchandise, administer and manage Leisure World Laguna Hills.

The Golden Rain Foundation of Laguna Hills would be owner of the assets that it would purchase and the trustee for common facilities owned by the Leisure World Mutuals. GRF would also provide community-wide services such as recreation and security.

This relationship was spelled out in what was called the *"Trust Agreement."* As they are today, GRF Directors were chosen by the directors of the several mutual corporations, thus allowing some control by the mutuals. The first 10 families took possession of their manors in Leisure World on September 10, 1964.

GRF was entrusted with the responsibility for the common facilities with the hope that they would not neglect them. Experience had shown then, as now, that after common interest developments are built out, some housing mutuals tend to ignore the common facilities which are a vital component to resale values.

Original Master Plan

The facilities in the original plan included seven clubhouses, a golf course, the Globe area, an administration building and a maintenance building—all to be turned over to the community by Rossmoor as finances allowed.

The Globe area, at its original location (now Ashley Furniture) was owned by GRF for two months in 1965. Its conveyance was reversed by an FHA mandate and in its place came title to Clubhouse II.

Cortese's Promise to New Owners

1. Security - a guard gated community.

2. Medical Care – Ross Cortese believed strongly in medical care for seniors, so his plans included a medical clinic building for residents. The monthly manor payments included a charge for medical service. On opening day the medical unit and pharmacy occupied two of the dining rooms and the second floor conference room in Clubhouse I. Outpatient and home nursing service were provided by a complement of three doctors and three nurses. When Medicare became effective on January 1, 1972, it replaced the Leisure World medical plan.

3. Entertainment and Recreation – The advertising

Clubhouse I, pictured on December 2, 1963, 10 months before opening day. View is from rear of the building. Gazebo is on the right. Later, the gym and shuffleboard buildings would be added and the fitness center extended.

Courtesy Leisure World News

Clubhouse II and Golf Starter Building, just prior to opening on September 25, 1965. A month later, Mannings started serving light meals in the clubhouse until they opened their own restaurant on El Toro Road about six months later. Courtesy Leisure World News

said, "It's all for free! In most instances there is no additional charge over the small recreation fee included in all monthly manor payments."

Included are: golf, shuffleboard, swimming, tennis, lawn bowling, horseback riding, billiards, ping pong, cycling, horseshoes, hiking, and entertainment composed of variety shows, concerts, holiday pageants, drama, fashion shows, choral groups, weekly dances, movies, book reviews, hobby shows, exhibits, square dancing, recitals, horse shows, water carnivals, game nights, clubs, guest speakers, library, church events, tournaments, tours, education classes, crafts, and the community's own closed-circuit television station, Channel 6.

Cortese's marketing program guaranteed each new owner an undivided interest into each and every community facility. There was no mention that new facility needs would be met or that the then existing facilities would remain useful.

Today it is a rare community that does not have a well-equipped, well-used fitness center. During the last 20 years our fitness centers have grown while commercial fitness centers have had difficulty maintaining profitability. Contrast this to our outdoor shuffleboard courts which have disappeared and one of the two professional-quality courts is being converted into a low ceiling gym.

Federal Housing Administration

Our Leisure World co-ops were funded by loans guaranteed by the Federal Housing Administration under the 1958 Housing Act, Section 221(d)(3). When these below market rate interest loans were phased out in 1968, Cortese was forced to built condominiums.

The FHA was committed to guarantee the 40-year mortgages. It knew amenities were required if this community was to be a success. The homes were to be built on 2,100 acres of open space—the Moulton Ranch. The closest shopping was the small country store on El Toro Road and the shops in Laguna Beach and Santa Ana. [It's doubtful that the new residents would be content sitting and watching the grass grow.]

To address this problem, the FHA Agreement required that Rossmoor convey community facilities such as clubhouses and golf courses to GRF far in advance of getting paid for these facilities. There were no assurances that Rossmoor would ever get paid for these facilities if sales ceased for any reason.

Each of the housing mutuals was financially self-supporting from its beginning, as far as its own internal costs were concerned.

Funds for GRF capital and start-up expenses were paid for from monies that accrued to the community from each sale. This facility and membership fee ranged from $1,450 in 1964 to $2,900 per manor in 1988. This made it possible for GRF to provide satisfactory service levels to the first residents and to purchase or build new facilities. As of 2012 a facilities fee of $1,500 was levied.

Shared Costs

Clubhouse III pictured in 1970. It opened on March 12, 1971, with a two night musical extravaganzas featuring its newly purchased Conn Organ. Photo by Harry Ashe

The 18-hole golf course opened on September 11, 1964. When the first residents moved in, free golf was a promise kept. But within two years after the course opened, golfers began paying green fees. The request for fees came from the golfers themselves.

The History of Golf, by Oliver P. Kolstoe states, "Early residents reported that when golf was free, people who had never before held a golf club in their hands suddenly began spending every spare minute on the course. The novices hacked, slashed, and whiffed their way around causing ulcerous frustrations among experienced golfers. In addition, some residents extended the concept of shared ownership to include weekend picnics on the courses where the free "sideshow" provided by inept golfers entertained their grandchildren.

"The frustrated, dedicated golfers proposed a $1 fee for the use of the course. The fee had the desired effect. The duffers quit, and the picnics ceased. In hindsight, starting in the 1980s the major deterrent to the casual golfer was the weekly, very early, morning lottery for tee times."

All Resident Cost Sharing

The "all-resident cost sharing" concept is that all of the amenities are equally available to all residents and the cost should be equally shared by all. It was recognized that one resident may actually use a particular facility to a greater extent than another resident who may be using other facilities in a very intensive manner. Some residents use none of the recreational facilities.

The option of using all facilities *may* enrich the lives of all residents. Community subsidized facilities should make the community more attractive, and should translate into a higher market value for the housing. Many activities would not continue to exist if they were not subsidized—buses, fitness centers, swimming pools and stables.

Conversely fees may be necessary, in specific cases to control usage. Some owners believe that individual residents should pay totally or to a greater extent for the particular benefits they enjoy.

The problem of fees and charges is complicated and involves a wide range of considerations. Discussions on fees started in 1964 and continue today. In some cases fees violate the original commitments made when Leisure World was first opened or when you purchased your manor.

GRF's Philosophy On Fees

A "Statement of Philosophy Regarding the Use of Fees" was formalized by GRF in May 1970 was: "The primary financial support of the overall program of community activities and services, as provided by GRF, is to be gained by the levying of equal monthly charges on the community's membership. There will be two general exceptions to this policy:

"1. **Participation Fees** may be approved by the board of directors in support of specific activity areas, providing they are needed and justified pursuant to approved criteria." Fees in Leisure World cover such items as use of the stable, golf course, storage of recreation vehicles, the cost of alteration permits and third party assessments made by the controller's department.

"2. **Charges for Services** may be made by the management agent, as may be necessary, to provide services requested by individuals or groups concerned, providing they are not in violation of the concept of community overall shared costs, as above stated, and excepting the area of participation fees as reserved by the board of directors for its decision." The GRF philosophy spelled out charges in such areas as the copy center, the replacement of I.D. Cards, copies of alteration plans, lessons, locker rentals, room set-up and clean-up.

Compromise

A study of the costs of the golf facilities was undertaken by a committee in October 1976. In the next year it focused on the cost of improving and maintaining the facilities. It included a proposal to double the size of the starter building and greens fees were raised again. As the study committee continued its work, the concept of shared costs for maintenance of all facilities in Leisure World versus the initiation of a “user fee” engendered intense partisanship. Letters to the Editor in the *Leisure World News* were frequent and strongly worded.

In 1984, A compromise of sorts was proposed by John Luhring, chairman of the golf study committee, with the designation of some facilities as “high cost centers.” These were defined as facilities that had gross annual operating and maintenance costs in excess of 0.5% of the GRF and Mutual Shared operating budgets. The committee proposed that the maintenance charges be calculated so that 35% was covered by maintenance, and facilities users paid the other 65%. According to *The History of Golf,* even though the policy for governing golf fees was agreed to by GRF in 1985, it was never officially adopted.

GRF maintained a position that fee setting was the responsibility of that governing body and must be flexible.

Leon Bosch, President of GRF in 1987-88, stated that GRF’s goal was “To preserve and enhance the quality of independent living for active adults in an attractively landscaped and gate-guarded residential community in which diverse recreational, cultural, and social facilities and amenities, essentially underwritten by an all-resident cost-sharing policy, accommodates and affords a pleasurable experience for the varied lifestyles of community residents.”

Current Practice — Jerry Storage

The shared cost concept is quite simple—all costs divided by the total number of dwelling units. The exceptions made to this philosophy, in the form of user fees, have existed since the 1960s. These fees have been reviewed, revised and updated throughout the years by various GRF committees and the board,

Clubhouse IV, had been in the planning and building stages for five years before opening on May 14, 1973. Courtesy Leisure World News

Clubhouse IV arts and crafts wing, in 1973. Weather delayed the opening two months. Photo by Dr. Clayton Johnson

evolving into a very comprehensive set of fees known today as the Fee Schedule.

In the mid-1980s, a significant effort was made to define the general principles of shared costs and the exceptions being made. On March 4, 1986, the GRF Board adopted by resolution a summation of these efforts into a document that was intended to better explain how exceptions were being made to the shared cost concept. This document was revised several times in subsequent years, and staff publishes and refers to this document as the Guidelines–Shared Costs and Fees Report (hereinafter referred to as Guidelines) as it contains pertinent historical and explanatory information that supports current fee policies.

The Guidelines report identifies key elements behind shared costs and fees:

- Shared costs are costs of operating, maintaining, or furnishing facilities or services which all residents have the right to use or enjoy.
- Exceptions can be made to offset these shared costs in a number of circumstances: (1) to control crowding, (2) to minimize over-usage, (3) to impose reasonable limitations on a facility or service, (4) to offset a high cost facility or service, (5) to provide a new facility or service and (6) because of limited or exclusive use.

Since inception, no fees have been imposed for certain facilities and services:

1. Aquatics (pools) – The view traditionally held by community associations is that a swimming pool is an integral part of residential real property, and that use of that facility should be covered by the residents’ monthly assessments.

2. Transportation (buses) – The original developer of the Village assured that the community bus system would furnish certain fare-free bus transportation to

Clubhouse V, viewed from Monte Hermosa in November, 1979. It was built to provide a venue for large dinners, dances, and other events. The large swimming pool was to accommodate the residents in the area.
Courtesy Leisure World News

residents. GRF boards have continued to provide fare-free bus service to Laguna Woods Village residents.

3. There are special facilities where it may be difficult, or not cost effective, to collect fees; i.e., shuffleboard, bocce ball, lawn bowling, tennis, fitness centers. In these cases, the administrative costs to process the collection of fees exceeds the reasonable revenue collected in the form of fees.

GRF Guidelines Document

In 1989, GRF again reviewed the fee Guidelines, made a few revisions, and re-adopted the document three more times in June, September, and November. The final version of the report was adopted by Resolution G-89-115 on November 7, 1989. This document is the one which is still used today to explain shared costs and fees.

The GRF Board has continued to make fee changes since the 1980s. When a GRF facility or service fee is adopted by resolution, it may or may not adhere strictly to the 1989 Guidelines. This does not make the Guidelines obsolete, since it does reflect the history and purpose of fees and how they are used to offset shared costs in various circumstances. However, the fee changes that continued in the 1990s and 2000s did not include a revision to the Guidelines.

Present Policy — Betty Parker

Standing committees periodically review fees and recommend changes based on the current operations of a particular facility or service. When making fee decisions, the committees often look at utilization, costs, and trends. Their recommendations are sent to the GRF Board for review and adoption by resolution.

Although fees are typically reviewed as needed in response to operations, occasionally all fees have been looked at together with an across-the-board review. The last time this occurred was in 1996. As a result, some of the effective dates on the current fee schedule date back to January 1, 2007.

Facility Fees

Facility fees have been a recent focus of discussion, and currently the fee schedule reflects a variety of fees for such major GRF facilities as facility room rentals, garden centers, the equestrian center, golf courses and the recreational vehicle storage lots. As an example of recent changes, last year the Community Activities Committee (CAC) recommended and the GRF Board adopted a new fee policy for room reservations in an attempt to apply fees more equitably. A similar review has been completed for the garden center fees.

Service Fees

Many service fees are also used to offset shared costs by both GRF and the mutuals. The following list shows the variety of items on the current fee schedule including: leases, transfers, third occupants, electric golf cart battery charging, carport and golf cart port space rental, security key deposits, inspections, manor alterations, permits, other chargeable services, services provided to guests, GRF recreational classes and community sponsored entertainment.

An example of a service fee change is the cost to

Clubhouse VI was part of a sales promotion plan to invite prospective purchasers to spend 3 days living in the community and enjoying meals at the clubhouse. Golden Rain Corporation purchased the facility in 1975.
Courtesy Leisure World News

charge the battery in an individual's golf cart. The mutual's golf cart electric fee offsets the shared cost of common area electricity. This fee is periodically reviewed by the mutuals whenever utility costs increase. Another example is the collection fee which offsets administrative costs associated with processing delinquent accounts. In light of the significant increase in delinquencies and collection efforts, this fee was recently adjusted. In both of these examples the oversight committees responded to specific needs.

Shared Costs

As we have discussed, these fees are used to offset shared costs. The 2012 GRF Business Plan includes what is called the GRF Facility Cost Report. The gross operating expense of a facility such as wages for onsite staff members, materials and supplies, utilities and overhead is reduced by the amount of expected revenue from fees. The net cost is referred to as the shared cost, the amount shared by everyone in the monthly assessment.

This report shows the operating cost of each GRF facility, net of fee income which is expressed as a per-manor-per-month assessment figure. Also listed is the percentage of the costs shared in an effort to answer frequently asked question, "How much are we paying for this facility?"

To properly answer the question, both the dollar amount and the percentage need to be considered. The percentage shared is sometimes referred to as a starting point for fee discussions. However, the percentage is merely a reflection of the result after fees are set.

Fees have traditionally been set to defray some portion of the shared costs, not to exceed them. This requirement can be found in Civil Code §1366.1 which states, "An association shall not impose or collect an assessment or fee that exceeds the amount necessary to defray the costs for which it is levied."

The Future — Lynne Dvorak

In February 2012, GRF had an open meeting to discuss the shared cost concept and begin to better define it in terms of our community. CAC is the committee that reviews and recommends the fees charged at our recreation facilities. CAC is made up of three GRF directors, two Third Mutual directors, two United Mutual directors and one Mutual 50 director.

In 2010, CAC began the process of establishing a formula that could be used to adjust fees for any activity on an ongoing basis without having to go through the time consuming committee process. The first fees addressed were the clubhouse room rental rates. There are other ways to determine user fees.

Clubhouse VII, pictured in September, 2005, was built by Golden Rain to house the bridge room and provide a mid-size dining room. Photo by Bob Ring

For example, the fee could be a percentage of the commercial rate charged for comparable facilities.

However, GRF decided that the fee should be a function of costs. CAC determined all costs associated with each clubhouse and divided this figure by the building's square footage. The cost attributed to each room was based upon its square footage. Once this cost was established a percentage was applied that would be shared, and the balance would be paid by the users. Every year the user fees are to be adjusted based on the budgeted costs of operating that facility.

Revised Fees

The result of this decision means that GRF will not be required to set individual fees unless the GRF Board decides to adjust to the shared percentage. This change may be recommended for any increase or decrease in usage of that facility. GRF used this formula to determine and approve the fees for use of the garden centers. This will be followed by an analysis of the equestrian center and the golf courses.

A question frequently asked is, "What about those activities that currently are not charged a fee? When will they be charged?"

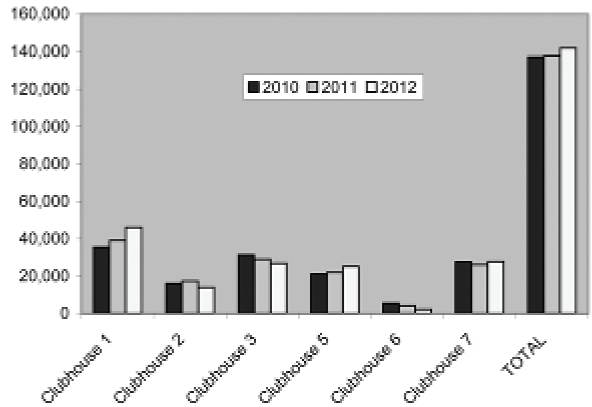
In the past, the cost to collect the fees for these activities exceeded the revenue that might be generated by the fees. This may change with advancements in technology. GRF continues to examine the options.

Shared Costs Revisited

ROOM RENTALS - 1st QUARTER COMPARISONS

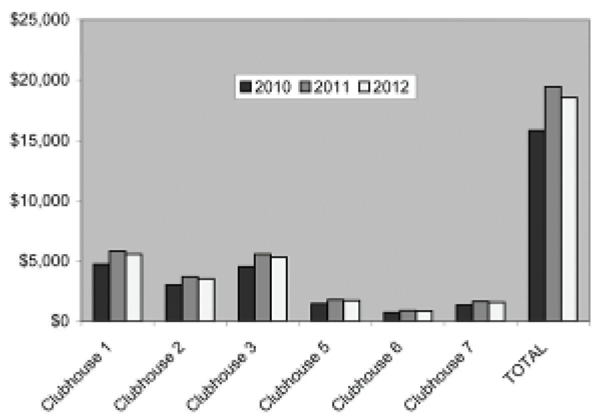
UTILIZATION

	2010	2011	2012
Clubhouse 1	35,511	39,003	45,996
Clubhouse 2	16,106	17,376	13,957
Clubhouse 3	31,355	29,119	26,811
Clubhouse 5	21,076	21,916	25,124
Clubhouse 6	5,553	4,214	2,188
Clubhouse 7	27,587	26,064	27,814
TOTAL	**137,188**	**137,692**	**141,890**



REVENUE

	2010	2011	2012
Clubhouse 1	$ 4,743	$ 5,825	$ 5,568
Clubhouse 2	$ 3,018	$ 3,707	$ 3,543
Clubhouse 3	$ 4,536	$ 5,570	$ 5,325
Clubhouse 5	$ 1,466	$ 1,800	$ 1,721
Clubhouse 6	$ 724	$ 890	$ 850
Clubhouse 7	$ 1,345	$ 1,652	$ 1,579
TOTAL	**$ 15,834**	**$ 19,444**	**$ 18,587**



FEES — At the Friends of the Village Meeting on shared costs held on April 5, 2012, Financial Services Director Betty Parker later compared the clubhouse room rental activity for each first quarter of 2010, 2011 and 2012. The methodology for fees changed during 2011. The data for the three months showed that while fees increased, utilization also increased and total revenue was higher in 2012 than 2010. PCM staff plans to update this information at year-end to provide annual comparisons. The ratio of revenue to utilization for 2012 was $0.13 compared to $0.115 for 2010.

Shared Costs Revisited

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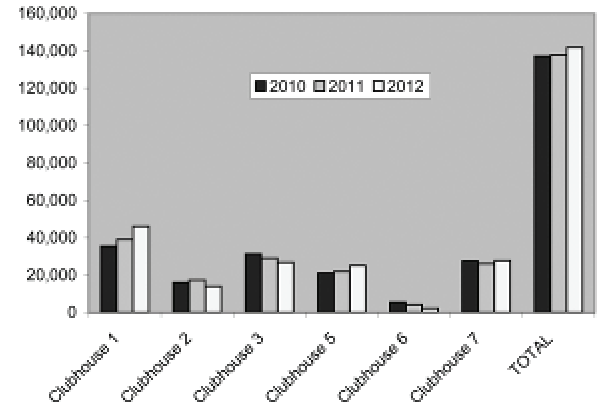

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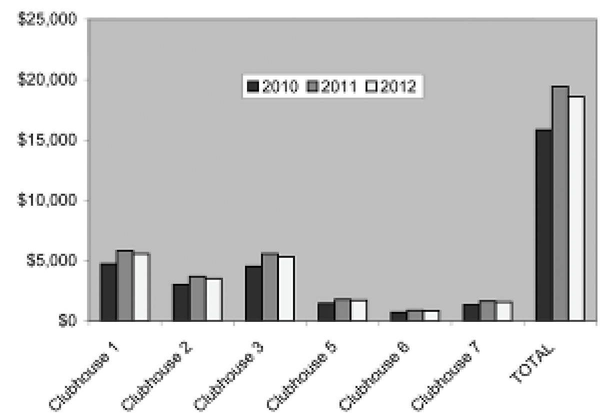

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of Laguna Woods

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Return Service Requested

Laguna Woods Village residents celebrated the grand opening of the beautiful Village Greens at the 27-hole golf course on November 29, 2011. Welcoming and opening remarks were delivered by PCM General Manager Jerry Storage and Golden Rain Foundation President Lloyd Foster. Photo by Bob Off

Editor — Bob Ring

Opinions expressed by authors in *The Historian* do not necessarily reflect those of the Historical Society of Laguna Woods.