

# Proposal #1

## Board Proposal to Increase Member Contribution to Reserves

### The Board of Directors proposes that:

The LMOA annual member dues shall increase by \$108 per lot and Marina Point unit to be dedicated as the member contribution to reserves, effective with billing for year 2011.

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### Board of Directors' Statement in Support of Proposal #1 To Increase Member Contribution to Reserves

#### Background

It is a primary fiduciary responsibility of any community association to maintain and preserve market values of both residential and common area property. The overall appearance of Lake Monticello translates directly into property values and a sense of community, a place where people want to live and experience a good quality of life.

Reserves are funds used to maintain, repair or replace equipment, amenities and infrastructure as they age and wear out. The Board of Directors is charged with protecting and preserving the common property, amenities and infrastructure, thereby protecting members' investment in the community. To do so properly, directors must develop funding plans for future repair or replacement of major common area and capital components, such as the swimming pools, decks, roads, marina buildings, and other amenities. Community associations throughout the nation use a common practice of setting aside funds for this purpose in a special category commonly called reserve funds, replacement reserves, replacement funds, or simply, reserves. LMOA policy states that anything with a value of \$1,000 or more is considered a capital component and is eligible for reserve funding.

Reasons for creating and adequately maintaining reserves include:

1. fulfilling budgetary, fiduciary and professional requirements, including the Commonwealth of Virginia's Property Owners' Association Act (POAA) § 55-514.1;
2. preventing deterioration of common assets, from which current owners have benefited,
3. minimizing the need for unforeseen special assessments; and
4. supporting resale values.

The POAA requires a detailed study of capital components be performed at least once every five years to determine the amount of reserves required to repair, replace and restore the community's capital components. The Lake Monticello Owners' Association contracted with Reserve Advisors, Inc., an independent, professional reserve study company that uses various models and depreciation schedules to provide associations with recommended funding levels for reserves in communities such as ours.

A portion of each property owner's annual member dues is currently dedicated to reserves, but that contribution is not sufficient to meet our aging community's obligations. While some funds have been set aside, LMOA's reserve account balances are inadequate to meet the community's needs. The Board of Directors will continue to use available revenue from investment income, but the balance of the reserve funding must come from members. Without member approval of an added contribution to reserves through a dues increase, the Board may need to use special assessments which will also require member vote. The longer we wait to put aside money for reserves, the higher those special assessments will likely be.

#### Determining Member Contribution to Reserves

The Board of Directors has calculated the member share of contribution by using the five years of 2011 – 2015 of reserve funding requirements, as projected by Reserve Advisors, Inc., as the starting point for the calculations.

1. 2010 reserve estimated carryover into 2011 was subtracted from the reserve study total.
2. Scheduled depreciation was projected out for the same five years and subtracted from the reserve study total.
3. The Board then estimated for the same five-year period the expected return available for reserves from investments and subtracted this number from the reserve study total.
4. The contribution each member already makes to reserves as part of their annual member dues also is subtracted. This includes the dedicated roads, lake health and amenity contributions in your dues.

The remaining balance was then divided by five to average the cost on an annual basis over the next five years, and divided again by the number of lots at LMOA. This amount is the proposed additional member contribution to reserves.

Here are the calculations:

Five-Year recommended contribution to reserves (Reserve Advisors Reserve Study Total of 2011 – 2015)	\$8,527,935
1. 2010 Reserve Estimated Carryover into 2011	
General Reserve	398,064
Amenity Fund	151,600
Amenity Reserve	15,852
Property Transfer Fund	198,530
Road Reserve	447,621
Lake Reserve	47,380
2. Depreciation expected (Calculated by multiplying 2010 depreciation by 5 years)	1,530,450
3. Return on investments (Dividends and Interest from ERA, capital gains, dividend and interest from Road Reserve and capital gains, dividend and interest from Lake Reserve)	530,500
4. Dedicated Roads, Lake Health and Amenity Contribution by Members already in Dues	
Roads (\$235,226.25 in 2010 x 5 years)	1,176,131
Lake Health (\$229,154.40 in 2010 x 5 years)	1,145,772
Amenities (\$78,795 in 2010 x 5 years)	<u>393,975</u>
Total contribution to reserves expected	\$6,035,875
Recommended contribution to reserves	\$8,527,935
Less expected contributions	<u>\$6,035,875</u>
Shortfall	\$2,492,060
Annual average shortfall for each of 5 years	\$498,412
Dividing by 4,635 lots is the per member contribution	<b>\$107.53</b>
<b>Member Contribution needed to meet Reserve Advisors' recommended funding level: \$108</b>	

### **Commitment to Use Independent Reserve Study**

The POAA requires an annual review of the reserve study to make additions and subtractions of capital components. The Board of Directors can make adjustments, as necessary, to maintain reserves, but shall not raise member contributions to reserves without member approval. Assuming member approval of this proposal, the Board may adjust downward or upward the amount of member contribution needed to fund reserves for any given year through 2015, as part of the annual budget, so long as the amount does not exceed the \$108 annual contribution already approved by the members. To request member approval of an upward adjustment to the member contribution over the \$108 in the future, it is likely that the Board would wait until a subsequent independent reserve study has been completed.

In order to preserve the beauty of our community and, subsequently, your individual property values, the Board requests your support and approval of this ballot measure.