LMOA BOARD OF DIRECTORS
Special Open Session Minutes
Preparations for April 2 Special Meeting of Members

DATE: Thursday, January 20, 2011

PLACE: Terrace Room, LMOA

DIRECTORS:

Present:
Scott Meiss, President
Gary Dillon, Secretary
Don Fickes
Mike Harrison, Treasurer
Ray Gott
Britt Johnson

Absent:
Benita Ellen, Vice President

STAFF:
John Korhonen
Meg Gore
Peggy Alexander
Linda Adams

1. CALLED TO ORDER

The meeting of the Lake Monticello Owner's Association was called to order in Special Open Session by Pres. Meiss at 7:05 PM on January 20, 2011.

2. PLEDGE OF ALLEGIANCE

3. AMEND SEPTEMBER 23, 2010 MOTION TO APPROVE A POLICE VEHICLE PURCHASE ORDER (Pres. Meiss)

MOTION by Director Fickes seconded by Director Gott *"that the Board of Directors amend the September 23, 2010 motion to approve the purchase a police vehicle by changing the purchase of a 2011 Police Vehicle to the purchase of a 2010 Police Vehicle."*

Motion carried 5-1-0 Sec. Dillon dissenting

4. TIME AND LOCATION FOR APRIL 2, 2011 SPECIAL MEETING OF LMOA MEMBERS (Peggy Alexander, Communications Manager)

MOTION by Director Gott seconded by Director Johnson *"that the April 2, 2011 Special Meeting of Members be held at 1PM in the Clubhouse. The meeting will be called to order at 10AM in the Faulconer Room and go immediately into recess for ballot voting until 1PM, when the meeting will be called back to order in the Terrace Room."*

Motion carried 6-0-0

5. STATEMENT FROM THE FINANCE COMMITTEE (Jim Mixter, Finance Committee Member)

I want to thank the Board for time on the agenda to speak on this important topic.

My comments will cover:

1) The Finance Committee's general perspective with regard to important financial decisions;
2) A brief summary of the Committee's 5-year budget and reserve outlook, because it gives a good overview of our Association's financial situation;
3) The two alternative ways to pay for repairs to our dams; and
4) Our Committee's recommendations.

The main message the Finance Committee wants to get across is that the proposal to take money out of the Emergency Reserve Account is a bad idea, and it is not in the best interest of Lake Monticello owners. And rushing to an April vote makes a bad idea even worse.

I think it's best for me to go all the way through this presentation and answer any questions at the end.

Let's look first at what guides the Finance Committee when it considers significant money decisions.

We believe that our Association's financial resources should be focused first and foremost on providing the current level of services to owners and making sure that funds are available to maintain and replace what comprises our wonderful Lake Monticello community.

This can be stated very simply--we need to take care of what we have, and we can do this by looking not just at one year, but at least five years into the future—including what will wear out, what will need major repair, and so on. And we need to make sure the money will be there.

That leads logically to the next underlying premise:

Unless it is very clear that we have surplus money both now and over a multi-year period, anything costing significant dollar amounts which is not related to current operations or existing assets should not be undertaken unless new sources of money are identified to pay for it.

Now let's look at what our recently completed outlook says about our Association's financial picture:

You night call this the Finance Committee's very brief State of the Union for the finances of our Association.

The heading says it all--the current outlook for both operations and reserves to take care of our community is tight, but it is manageable. The Board accepted this Outlook in December when it approved the 2011 budget.

The six points shown are each very important:

1) The outlook assumes that expenses will be carefully managed. It is not an austerity budget--it allows for up to 3% annual increase of expenses--but it will take diligence and hard work to stay within, and there is not much room for error;
2) The Outlook assumes that the income currently coming from the ERA continues at current rates and is put into reserves to be used to repair and replace property and equipment, including the dams. Reserves will also need to continue to receive money from dues and fees as has been recent practice;

3) The Outlook indicates that there may need to be one or two more 3% dues increases; on the other hand, if staff and the Board can identify and implement ways to do current activities more efficiently, then it may be possible to reduce the need for this;
4) The Board did not ask the Finance Committee to plan for any significant spending on new initiatives, so none is built into this Outlook;
5) On the other hand, the dam repair issue did arise as the Outlook was being prepared, and the Outlook does include all $850,000 currently projected for these repairs; and,
6) Finally, the Outlook includes funds for items that staff and the Building, Roads, and Grounds Committee identified as needing major repair or replacement over the five years. Significantly, this includes more than $800,000 to be spent in 2011 alone on things other than the dams, including about $150,000 worth of items postponed from prior years.

I think this sets the scene now for talking about how to pay for the repairs to the dams:

Being talked about tonight are two very different ways to pay for the repairs to the dams.

The first one shown, the Proposal, would withdraw $700,000 of the principal from the Emergency Reserve Account for dam repairs. It would also use $150,000 from other existing Association accounts. It requires voting approval by members because the Board can spend the income, which comes from the ERA, but it cannot spend the principal or the capital gains without member approval.

The second way to pay for dam repairs is what the Finance Committee proposed and the Board approved in December. It would use funds, which are present in various Association accounts plus some income from the ERA and much of the income coming from Property Transfer Fees over the next several years. This approach uses what remains of the fund originally intended for use in building a second pool complex, and it uses the Acres Reserve Fund. The dam repair costs include expenditures at Acres Pond.

My next charts cover the pros and cons of these two very different approaches.

The biggest reason being given by the four members of the Board who voted to schedule a member vote to withdraw money from the ERA is that it would preserve the Board's flexibility to spend money in existing accounts on new initiatives and unexpected needs. Items mentioned have been expenses related to the land swap, building a new entrance gate, possibly buying 50 acres of land currently for sale, and unexpected major repair/replacement items.

But let's dig into this question of flexibility:

The reason I provided a summary of the 5-year outlook earlier was that it indicates that essentially all the funds and ERA income we now have will be needed to operate the Association and take care of what we currently have.

If any significant money is spent on new things, either this will need to be covered by new sources of money, or we would be spending money needed to take care of what we have, creating a problem, a financial shortfall, in the future.

This is reason enough to use the money in various accounts on the dams rather than keeping it available to spend on other things. But there is another major reason to use that money rather than ERA principal. Money in the ERA has been earning over 4% in dividends and interest over the last two years. The money currently in the various accounts is not invested, so it is earning very little, as all of us know who have some savings in money market type accounts.

Thus, spending ERA money on the dams would reduce income to our Association by at least $28,000 per year--and this loss would continue year after year, since the Proposal has no plan to put funds back into the ERA at some future time.

Now let's take a look at the other way to pay for dam repairs, using money available from sources other than the ERA:

What are the advantages of the approach the Board approved in December to repair the dams instead of withdrawing money from the ERA?

They are many, and they are compelling:

1) This approach is consistent with spending existing resources on current operations and on what we currently own;
2) It preserves Emergency Reserve Account principal so it could be used in an emergency. The current dam repairs are not an emergency, because we can undertake repairs in a planned way, and we have the funds to do it;
3) Using the various funds is less costly than using ERA funds, to the tune of more than $28,000 per year; and,
4) The Finance Committee structured its plan to pay for dam repairs over three years, with $650,000 of the spending occurring this year. But even if all of the spending occurs in 2011, the approach can be modified to cover all $850,000 this year if need be.

And there are two more considerations:

Using the various existing funds preserves the ERA principal, not only for possible future emergency use, but also to maximize future dividends and interest which are needed to fund reserves in the 5-year outlook. Losing $28,000 in annual revenue will blow a $100,000 or more hole in the 5-year outlook even if money is not spent on new initiatives. It is essential that all of the ERA principal and capital gains be kept at work earning income for our Association.

And lastly, repairing the dam using the approach the Board approved in December would not require a special member meeting and vote, which is not in our 2011 budget and which will cost precious dollars--at least $7,000 for printing and postage.

My last chart will not come as a surprise:

The Finance Committee strongly recommends that ERA principal or capital gains not be withdrawn and used to repair the dams.

The best reason given to use ERA money is to maintain flexibility to spend funds on new initiatives, but we don't have resources to spend on new initiatives without jeopardizing the 5-year plan to operate and maintain what we have. I need to say here that the Finance Committee is not necessarily opposed to new initiatives. We just believe that they should be considered only if plans include new money to pay for them. We need to devote all of our current financial resources to maintaining current services to owners and properly caring for the things we have, which make our lake community what it is.

Lastly, in view of all this, the Finance Committee recommends that the Board reconsider holding the special meeting and vote in April, so as to avoid the unbudgeted expenses required to conduct the vote. Work on the dams can proceed immediately using available funds. The vote to use ERA principal could occur without the $7,000 cost at the annual meeting in June. If it passed, then ERA principal could be used to replenish the accounts used for dam repairs. In short, there is no need to rush to an April vote.

We have money to start repairing the dams without using the ERA. Rushing ahead makes a bad idea worse and is not in the best interest of Lake Monticello owners.

6. MEMBER COMMENTS (limited to 5 minutes per speaker on agenda items only)

Al Muoio	398/3
Wayne Schmidt	370/3
John Bauserman	264/12
Joy Bauserman	264/12
Charles Johnson	57/1

MOTION by Sec. Dillon seconded by Director Johnson *"move that we proceed to pay for repairs to the dams as provided for in the funding plan we approved as part of the 2011 budget in December and not hold a special meeting and vote in April to withdraw funds from the ERA for dam repairs."*

Motion failed 2-4-0 Pres. Meiss, Treas. Harrison, Directors Fickes and Gott dissenting

Board recessed from 8:25 PM to 8:32 PM.

7. BOARD PROPOSAL AND STATEMENT FOR FUNDING DAM REPAIRS (Treas. Harrison)

MOTION by Treas. Harrison seconded by Director Gott *"that the Board of Directors approve the Board Proposal and Statement as edited in the January 20 Special Open Session and subject to legal review."*

Motion carried 6-0-0

8. REMARKS FROM THE BOARD

Director Johnson thanked the Finance Committee and everyone who worked on the Board Proposal and Statement.

8. ADJOURNMENT

Pres. Meiss adjourned the meeting at 9:05 PM.

by: _____
Gary Dillon, Secretary