

LCHA Special News Letter

December 2007

2008 Budget

Due to the low attendance (7% of all homeowners) at the quarterly meeting in October but more important of the subject, the LCHA Board of Trustees is sending this special letter in an attempt to address some of the questions and concerns of the neighborhood.

The main topic of the fall quarterly meeting was the 2008 yearly budget and increase to 2008 dues. Many hours of discussion, research, and planning went into not only the budget design but the presentation for the meeting as well. An increase in yearly dues is not a decision that comes by the Board easily. Remember, the Board members are neighbors and will pay the same dues increase. In addition, the Board anticipated the decision to raise dues would be an extremely unpopular one. In any case, there are several reasons why an increase is necessary. Keep in mind that the dues have not increased in over 8 years since 1999. The Trustees have saved homeowners over \$10,000 this past year (\$30 per homeowner) by managing the day-to-day operations of the Association but at cost of time to the Board of Trustees.

Bankruptcies, Foreclosures, Non-Pays and rising costs

There have been a number of bankruptcies and foreclosures in the neighborhood in the last several years. This has caused a great deal of delinquency and non-payment where Association dues are concerned. Also, there are a number of homeowners that simply do not pay their dues. An arrangement between former LCHA officers and Rickert Property Management (RPM) was such that Rickert did not conduct nor was responsible for the billing and/or collections portion of the Association management. During this time, delinquent dues were not actively collected and so the Association began to lose equity.

- *From 2002 to 2003, net income (total equity) dropped from \$12,163 to \$5,317*
- *By the end of 2006, net income was \$2,272 in the red!*
- *5 - 10% (\$2,058 - \$4,116) of the Association homes do not pay year after year*

Rickert Property Management (RPM)

In the spring of 2006 (*and after resignation of some former officers*), it was decided that RPM would again take responsibility of the billing and collection of Association dues. RPM agreed but raised the management fee from \$300 to \$750 per month, plus expenses. Unfortunately, there was little to no improvement in the areas of dues payments and collections for the additional expense. In October 2006 the business relationship was severed.

- *Desperate attempt to collect over \$15K in delinquent dues from years prior (the Association will not be able to collect most of these fees due to foreclosures and bankruptcies)*
- *Additional fees incurred from May to November 2006*

Board Management

Without much of a choice for 2007, the LCHA Officers/Trustees managed the Association. While many homeowners may be ambiguous to any change for better or worse, the Board achieved many of the objectives that were set both in 2006 and 2007 in spite of problems such as non-payments and a continuing lack of homeowner participation.

- *Over 100 trees placed and/or replaced by the city of Delaware in LCHA common areas*
- *Paved trail repaired and top-coated, also by the city*

- *White boundary posts painted by volunteers*
- *Neighborhood picnic in 2006*
- *Billing database, accounting, tax filing*
- *Collections through Horizon Account Management (over \$2K of past due collections in 2007)*
- *Lawn care bid/re-contracted to include more weed control, fertilizer, mulching and trenching*
- *Vacant homes mowing*
- *2 newsletters delivered 2 notices in 2007 (some hand-delivered to save on postage)*
- *Monthly Board meetings and bi-annual neighborhood meetings*
- *\$10,000 savings to the homeowners.*

Property Management and Reserve

It is the decision of the Board that to continue to maintain the Association properly, there are a couple of things that must happen. First, there must be a third party management organization to manage day-to-day operations. It is not fair to the Board members, as neighbors and volunteers, to be forced to handle deed restriction, by-law, or dues disputes; nor is it fair to other homeowners. Additionally, it is not responsible to allow the management of the Association to run without a succession plan or a system of checks and balances. In other words, what happens if the Board members resign?

F. Managing Agent. *The Board may retain and employ on behalf of the Association a Manager, which may be Grantor, and may delegate to the Manager such duties as the Board might otherwise be authorized or obligated to perform. The compensation of the Manager shall be a Common Expense. The term of any management agreement shall not exceed three years and shall allow for termination by either party, without cause, and without penalty, upon no more than 90 days' prior written notice.*

In addition to hiring a property management company, it is fiscally responsible to plan for a “rainy day”. As the Association stands today, there is no equity or reserve available. As mentioned earlier, the last few years have been tough on our neighborhood and there has been a pattern of increasingly more non-payment of Association dues. This is unfortunate, but it is a reality. The Board has decided to place a 5% reserve fund in the budget by the authority of the deed restriction

A. Reserve Fund. *The Board, at its discretion, may establish and maintain a Reserve Fund for financing the operation of the Association, for paying necessary costs and expenses of operating the Association, and/or repairing and maintaining Common Property or components thereof.*

These two items, property management and reserve fund, account for over half (about 53%) of the total increase to the yearly dues.

- *PSAM (new property management firm), reputable, manages several neighborhoods in central Ohio*
- *\$21 per year, per household for a total of \$7,203*
- *One-time set-up fee of \$10 per home, or \$3,430*
- *Proven action plan on dues collections*

Grounds & Maintenance

The other contributing factors to the dues increase are additions made to the grounds & maintenance budget. The largest single expense is that for grounds keeping (mowing, edging, mulching, fertilizer, etc.). This year, the amount paid out to Scarlet and Gray Landscaping will be less than what the Association paid in 2003! What's more is that this year's contract included much more fertilizer and weed control, more edging, and more mulching.

The more unpredictable item is pond maintenance. Although we contracted with Fountech, Ltd. this year as opposed to paying for each visit, it is difficult to foresee maintenance and/or weather related problems. For example, the extremely dry summer in 2007 caused there to be more algae than normal and thus resulted in more chemical applications. There were also several charges accrued for pump replacement as well as modifications to prevent the pump from clogging. The Association has paid as much as \$4,000 (2004) in a year for pond maintenance and as little as \$1,300 (2006). This year the total is at just over \$3,100, and \$1900 was the budgeted amount.

Another item included this year in the G & M budget is vacant homes mowing. Although this has been a sore subject in quarterly meetings, the Board feels strongly that taking on the responsibility of mowing vacant lots is important to the overall presentation of the neighborhood and the integrity of all of the homeowners' investments. This year, \$500 was budgeted for vacant homes. The total for the year is \$900 (36 mowings) or just over \$2.62 per year per homeowner. The Association hopes to recoup this cost in Lot Assessments per deed restrictions; however, it must become a budgeted line item as it is impossible to predict how much will be recovered.

E. Lot Assessments. *The Board may levy a Lot Assessment against any Lot(s) and the Owners) thereof to reimburse the Association for costs incurred on behalf of the Lot{s}, or as a consequence of any act or omission by any Owner, occupant, or invitee, including without limitation, costs associated with making repairs that are the responsibility of the Owner; costs of additional insurance premiums specifically allocable to an Owner; costs of any utility expenses chargeable to an Owner but not separately billed by the utility company; and all other fines and charges reasonably determined to be a Lot Assessment by the Board. Upon its determination to levy a Lot Assessment, the Board shall give the affected Owners) written notice and the right to be heard by the Board or a duly appointed committee thereof in connection with such Lot Assessment, 10 days prior to the effective date of the levy of any Lot Assessment. The Board may levy a Lot Assessment in the nature of a fine reasonably determined by the Board against the Lot of any Owner who violates the Rules, or any provision of the Association Governing Documents, or who suffers or permits his/her family members, guests, invitees or tenants to violate such Rules or any provision of the Association Governing Documents, including these Restrictions.*

A topic of much debate in the quarterly meeting was the planting of annuals, perennials, and general landscaping improvements. The Association is polarized; many feeling that the landscaping is adequate, many others having the opinion that flowers, maintenance, and general improvements are needed. This is an important item as the main responsibility of the Association Board is to maintain the common properties. As such, there have been budgetary additions to provide for a nominal amount of flora and landscaping improvements as stated in the Deed Restriction.

A. Maintenance by Association. *Subject only to budgetary limitations and the right of the Board to exercise reasonable business judgment. The Association shall maintain and keep in good repair the Common Property. This maintenance shall include, without limitation, maintenance, repair, and replacement of all landscaping and other flora, structures, and improvements situated upon the*

Common Property and all personal property used in connection with the operation of the Common Property.

The additions to the G & M budget account for the other portion (43%) of the dues increase.

- *More fertilizer, weed control, additional edging and pruning, spring and fall clean-up (\$5,800)*
- *Fountain maintenance parts allowance (\$1,000)*
- *Vacant homes mowing (\$1,500)*
- *Perennials, Annuals (\$1,000)*

Summary

The last several budgets have been based on an amount less than the total of \$41,160 (\$120 multiplied by 343 homes). Prior to 2007, there was an average deficit of about 5% per year based on delinquencies and non-pays. In 2007, the deficit was over 10% before collections. The annual income this year will be about \$39,400 with expenses totaling close to \$42,000. The budget for 2008 includes the property management contract and start-up fee (\$10,633), a reserve of \$3,177, and approx. \$9,300 additional for grounds and maintenance improvements. These additions amount to about \$72 per year for each homeowner.

Bottom Line

In order to fulfill the obligations and responsibilities set forth in the Association's deed restrictions, the Board finds it necessary to raise the yearly dues to \$195 (\$120 current due plus the \$72 indicated above rounded up) starting in 2008. Please understand that much effort has been placed on development on the 2008 budget and the decision to raise the dues is not taken lightly. As the Association begins its partnership with PSAM in the coming year, many business options will be investigated. For example, all current contracts will be reviewed and/or placed for re-bid, dues collections, delinquencies, and liens will be more consistently monitored and challenged, and dues payment options will be explored.

