Questions & Comments posed by Members to the Board of Trustees re: Reserve Study and assessment issues and planning:

I. Information / Education & Updating Reserve

1. I support the board's efforts in preparing the 2013 budget. I found the Cape George Colony Club Reserve Funding Options table that was included in the August 31, 2012 letter to the membership, very helpful in indicating how a dedicated reserve assessment would work.

2. CG members need to hear the story several times and over a period of time. Showing the members the disclosure process/form would be a useful step. The presentation of the disclosure form is not only a good idea, it is required by Washington State law. Each year the membership can expect to find a summary of the financial status of our reserves.

3. Are there members of Cape George Colony Club with expertise to volunteer performance of an annual reserve study review in the years when a professional reserve study is not required? Yes. Cape George is fortunate to have a number of well qualified staff and volunteers with the knowledge to maintain the reserve schedule during the two years between having it conducted by a professional reserve study consultant.

4. Why didn’t the Board put a “specific” recommendation on the table at the Special Board meeting? The Board considered this and opted to recommend the Bylaw amendment only in order to allow more time for a community discussion on the amount and structure of any reserve assessment.

II. Timing of Reserve Assessment

1. We support the need for reserve assessment, but we also believe that we should not move ahead until we have adequate time to prepare a plan for funding and then in term allow sufficient time for educating our membership. This is the approach that the Trustees are taking by first presenting a Bylaw change allowing for the establishment of a dedicated reserve assessment. The next step will be to continue the discussion with the community and further inform them of the importance of funding the reserves adequately.
2. Please do not to rush this process, for it is a process and to arrive at the optimum outcome, it should be treated as such. This means not rushing to any decisions and allowing time and opportunities for the members of the community to engage in some constructive dialogue and thought about the implications of this proposal. This is a complex topic with a very detailed report to consider. The Trustees agree that it is important to take the time to bring the community up to speed gradually. This is the approach that the Trustees are taking by first presenting a Bylaw change allowing for the establishment of a dedicated reserve assessment. The next step will be to continue the discussion with the community and further inform them of the importance of funding the reserves adequately.

3. The process used to address the reserve issue could be a great opportunity to create a template and establish a process for dealing with challenging topics and difficult decisions in the future. Such a process, it seems to me, would allow members to feel their concerns and ideas have indeed been taken into account and are truly part of the Board's considerations - as opposed to their simply being given the opportunity to respond to a ballot proposal. The Trustees agree that this has been a great learning experience in how the community can work together to resolve its challenging issues. We have implemented a number of valuable communication tools that will undoubtedly be of use in the future.

4. Won't paying an additional reserve assessment create a hardship for some of our members? Yes, but a manageable regular payment of hundreds of dollars presents much less hardship than a sudden, unanticipated special assessment of several thousand dollars.

III. Data & figures in Reserve Study

1. How long has the CGC Reserve Study been in progress and who has reviewed it? The reserve study was authorized in 2011 and took approximately 12 months for a final draft to be approved. During that time Staff, Trustees and the appropriate Committee members have had a chance to review and provide comment.

2. We suggest that the cost of upkeep and eventual replacement of the workshop building be put into the reserve fund plan. This will be a part of future discussions.
3. Why is replacing of the water pipes not included in the Reserve Study? Under the State Statute, the reserve account funding plan looks forward for 30 years. The water pipes are likely to last longer than 30 years and thus were not included in the plan.

4. I am opposed to the use of special assessments for replacement costs. That just burdens the people living here at the time. Ongoing reserve assessments spread the cost over a long period of time, hopefully in manageable sums.

5. If the purpose of the reserve study is to plan for major repairs or replacements, why are so many smaller items also included? The Statute defines “reserve component” as a common element whose cost of maintenance, repair or replacement is infrequent, significant and impractical to include in an annual budget.

6. Some of the figures in the reserve study don't look right to me? What if they are wrong? The figures in the reserve study are based upon physical analysis of items and the use of the replacement costs and useful lives as published in accepted manuals for construction and appraisal. State Law requires the study to be updated annually. If experience shows the figures are not right, they can be adjusted at that time.

7. In the future, can other items be added to the reserve study or taken out of the reserve study? Yes, the study can amended to fit the circumstances that then exist.

8. A tremendous of work has already been done on the Workshop and a retrofit of the structure is underway. It should definitely be added to the Reserve Schedule. This will be a part of future discussions.

9. I feel that the studies were incomplete. As an example, the “fact” there were pictures in the General Study but none in the other two studies. Any errors or omissions can be corrected in future years.

10. I am particularly upset that the Marina Study SPREASHEET ended in 2030 and that you had not yet heard from the consultants about why that was. The projections only go out until we become 100% fully funded. If we ran the projections further, it would project that we would continually become further overfunded, which of course, we would not do.
IV. Full Funding vs. partial funding of reserves

1. The major decision before the Board is whether to adopt the Full Funding of reserves. In the not too distant past, CAI thought that 75 was a fair number. Have we checked what other homeowners associations and what CAI might advise? This will be a part of the ongoing discussion with the community.

2. It is our opinion that we need to look at a plan for funding reserves that would ease in the funding over a period of say four or five years. This will be a part of the ongoing discussion with the community.

3. We suggest that cost of replacement of the clubhouse in 2040 be left out of the reserve and paid for as an assessment in the years closer to the actual need of a new building. That way, the building will be paid for by a much greater percentage of people who will actually use it. Under the State Statute, the reserve account funding plan looks forward for 30 years. It is anticipated the Clubhouse will need to be replaced within that 30 year period. Further, our members are using the Clubhouse now and should be expected to pay their fair share.

4. It’s difficult to reconstruct prior reserve funding and spending history. But I do have a couple of interesting facts that highlight that the real historical hurdle was in how we used original cost rather than future replacement cost to calculate what we should fund.

5. Why should I have to pay now for replacement of the clubhouse in 2040 at a cost of $1,722,827? Because you are “using up” the Clubhouse now and in the future, you should have to pay your fair share. The current replacement cost is $862,926. The difference is 28 years of inflation.

V. Reserve funding options / comments

1. I own 1 vacant lot in the Colony. If the "Proposed Fees with Reserves" is adopted, I will be paying almost one sixth of my current assessed value. This increase will make it hard for me to justify keeping this vacant lot. This will be a part of the ongoing discussion with the community.
2. Re: the reserve assessments, if someone is not paying their dues, do the other owners have to make up the difference if the reserve by-law is passed? No, every member will be expected to pay their required assessment.

3. There may be some other creative ways to generate some income that might reduce the impact of a large assessment. For example, CGCC owns some lots that could be sold with the proceeds put into the reserve funds. This will be a part of the ongoing discussion with the community.

4. Don’t part of the water fees and marina fees go toward reserves? If so, will that continue to be factored into the reserve assessment amount? With our current general assessment, left over revenue is deposited into the corresponding reserves. In the future, it is hoped that a dedicated reserve will fund these reserves.

5. Will there continue to be 3 reserve accounts, i.e., General Operations, Water and Marina, and, if so, how will the $391 discussed at the meeting be split among those 3? This will be a part of the ongoing discussion with the community.

6. Water users have funded the reserves from the water usage fee, and the calculation used by our consultant RDA is in fact the total amount of water reserves needed annually divided by 505 (the most recent number of water users). Therefore, it would be important to clarify whether the Board intends water users to continue to fund these reserves. Consequently, your communications should include what lot owners without water hook-ups pay vs. water users? (As an aside, a number of vacant lots have failed wet season tests and are deemed unbuildable, therefore never being permitted a water hookup. I would submit that until something changes for those folks they should not be subject to the water reserve assessment.) This will be a part of the ongoing discussion with the community.

7. At present, the recommended Marina reserve contribution is spread across all members. I would submit that some proportion should be contributed from the marina fees, i.e. slip fees, storage, rampage, etc. Alternatively, the marina assets could be split between infrastructure funded by all members and wear-and-tear items funded by marina users. This will be a part of the ongoing discussion with the community.
8. The number of $391 discussed at the meeting might change for
with members with water. And, certainly, even now $391 would not
be the number for the lot-without-water members. This will be a
part of the ongoing discussion with the community.

9. Saying that operating budgets will go down should be done very
cautiously. Note that water operations is over budget year to
date. If we didn't have that "cushion" intended for reserves, we
would be faced with a deficit. Future budgeting will still need a
contingency for operating cost overruns and the net income after
expenses will still need to roll into reserve accounts after the
annual audit.

10. How are we going to adjust the amount of the annual reserve
assessment (beyond the proposed 2.5 inflation figure)? Will we
need a By-Law change each time? The proposed Bylaw
amendment will allow the Board to increase the reserve
assessment by up to 2.5% annually without a vote of the
members. Anything above that will require approval by the
membership.

11. Solutions to consider to raise funds for the reserves so
assessments will be less:

   a. Close the Pool. The pool is a nice amenity but an
      expensive resource to pay for.
   b. Create a pay for Pool use fee. If closing the pool is not an
      option, then create a pay for use similar to the
      ramp and moorage fees. This will assure that those who
      take full advantage of it will cover the costs and those that
      don't are not burdened with the expense.
   c. Reserve funding correlating to property value. Consider a
      reserve funding rate that correlates to the assessed
      property value to make it fair across the board.
   d. Lower the rates on renting the commons. The idea here is
      that more rentals will take place which will result in more
      revenue.
   e. Create a pay for use for the shop area. I suspect this area
      is used by a few and not the majority. Costs associated with
      this are probably minimal (electricity, heat, maintenance,
      etc.) but every bit will helps and assures those that don't
      use it are not burdened with the expense.
   f. Vacant Lots (See below).
   g. Take out a loan when a special assessment is needed.
This will be a part of the ongoing discussion with the community.

VI. Treatment of vacant lots vs. improved lots

1. Lots have less of a value than improved lots. Why should an unimproved lot owner have to pay the same as an improved lot owner? This will be a part of the ongoing discussion with the community.

2. There are some lots that are unbuildable. Why should the owners of unbuildable lots have to support an infrastructure (roads, water) that can never be used on their lot? This will be a part of the ongoing discussion with the community.

3. Cost offset for vacant land owners. The rate increase proposes an offset for those who use water but no offset is considered for vacant land owners, who in my opinion, have the least impact on the amenities not to mention the water system. This will be a part of the ongoing discussion with the community.

4. Should vacant lots with no water connection be required to pay a full reserve assessment which also funds the water system? This will be a part of the ongoing discussion with the community.

5. Regarding undeveloped lots, especially those that have recently failed a wet season test and are therefore deemed unbuildable, such lots should be subject to an assessment for major repair and or replacement of specific infrastructure items. In the past, the contribution to water reserves was made using the excess generated by fees for water services. If the position is that only specific use/service fees should fund specific infrastructure costs, then would it also be true that those who do not use, and may never use, the marina or the pool should not be responsible to fund those infrastructure costs? To suggest that water infrastructure is somehow different from the infrastructure of other services and/or amenities insinuates that owners of undeveloped lots are different that the owners of developed lots. Cape George’s bylaws state that the Club shall have but one class of Member. This will be a part of the ongoing discussion with the community.

VII. Effect of reserve funds on future buyers
1. If disclosure means handing the buyer a document on the sad status of CG’s reserves I think that will raise the awareness level and a 7% funding will raise red flags. The point that absent a sound reserve funding program potential buyers may be scared off is a powerful argument. This is one reason that this discussion needs to take place.

2. Do lenders and buyers really look at the funding level of reserves in making a decision to buy? It has been brought to our attention that this is taking place in some purchases.

3. Could our underfunded reserves be disclosed to buyers or lenders? Yes

4. Do the RCW’s require that we submit reports back to the state or to members and other third parties (banks) that might ask for the information in connection with loans etc? It is not required that we present our disclosure to potential buyers. It is however required that we provide an annual disclosure report to each member.

VII. Care in funding future repairs

1. I don’t necessarily trust future Boards to exercise rigor or restraint in spending the reserve funds. The current State Statutes are restrictive as to how reserve funds can be spent.

2. Are there legal mechanisms by which we can ensure that reserve funds are spent solely on reserve projects and is it possible for members to prohibit borrowing of funds from the reserve account? Yes, the State Statute limits the circumstances for borrowing and requires repayment within 24 months.

3. Is it advisable for even more than two people's signatures to be necessary -- or some other safeguards be in place -- before reserve funds can be withdrawn? The withdrawal of reserve funds currently requires a resolution of the Board.

4. Are there any protections against the withdrawal of reserve funds for other than reserve projects? Yes, the State Statute limits the circumstances for borrowing and requires repayment within 24 months.

10/11/12