

Lake Linganore Association, Inc.
January 21, 2008
Board of Directors Meeting Minutes

CALL TO ORDER

The meeting was called to order at 7 p.m. at the New Market Grange Hall, New Market.

Board members present were: John Allemang, Robert Charles, James DiMeglio, Brandon Frazier, Stephen Hembree, Brian Jacobs, and Mark Paxton.

BoD Absent: none

Staff in attendance: CRM Gurley.

APPROVAL of January 7, 2008 BoD MINUTES

Minutes of the January 7, 2008 regular board meeting were approved as amended.

OLD BUSINESS

FY'09 Budget and Assessment Rate— Director Frazier explained that the meeting was to review, tweak and adopt a budget for FY'09. He said that the reserve fund was the most significant factor that would impact the budget. He explained that the reserve fund was the money set aside and used to maintain and replace the infrastructure and other capital assets owned by the Lake Linganore Association (LLA). He said that having a healthy reserve fund was a primary responsibility of any homeowner association and that state law may soon require it. Director Frazier presented a PowerPoint program that reviewed the primary reserve accounts in the LLA budget. The PowerPoint program information is attached to the minutes.

Director Frazier introduced Susan Young, chairperson of the LLA Finance Committee, who presented a PowerPoint program showing the current finance position of the LLA as of December 2007. The information is attached to the minutes. Mrs. Young also reviewed the operating and reserve expense detail for the association as it would be with an assessment rate of 28-cents per \$100.

The question was asked why the assessment is tied to property values. Mrs. Young explained that LLA covenants require it.

Director Frazier explained that the 2002 reserve study established what was needed to meet the financial requirements for the reserve fund. A new reserve study is being conducted and though it is not completed, the initial indication is that the association is behind in where it actually should be with its reserve fund.

The question was asked why the board was requiring an increase in the assessment before having a completed reserve study. Director Jacobs explained that the board was setting the rate in order to meet the deadlines for the next budget cycle and that a decision cannot be delayed until the study is completed, which is several months off.

Director Frazier then showed what the assessments would be per village with the 33-cent rate and 28-cent rate. Director Frazier then reviewed a list of budget considerations proposed by Director Hembree. The list is as follows:

- Edgewood Road, Eaglehead Drive and Hemlock Point Road Engineering— Cost: \$50,000. Reasons: To facilitate the design of a proper road and storm drain plan for Edgewood Road and produce a cost estimate for installation of same: to have test borings done on Eaglehead Drive and the southern end of Hemlock Point Rd. and an engineer's assessment of the current road condition regarding immediate needed repairs, cost estimates for stated repairs, underlying drainage problems and condition of sub-base. The report should include guidelines for proper maintenance of open section roads and maintenance of the adjacent swales, shoulders and storm drain devices.
- Lake Desiltation Engineering— Cost: \$65,000. Reason: To complete the design engineering for desiltation of the lake, including obtaining permits.
- Esplanade Engineering— Cost: \$35,000. Reason: To have full-scale engineering inspection of the esplanade, including borings if necessary, and an estimate for necessary repairs with a time frame for repairs based on priority.
- Road Maintenance Plan Engineering— Cost: \$20,000. Reason: To create a working road maintenance plan; starting with the one adopted by the LLA board in 1996, and working with the LLCS and LLA to finalize the plan. It should include a cost estimate for yearly maintenance based on the performance criterion.

The total cost of the budget items is \$170,000.

Director Jacobs said that the biggest issue in the budget consideration is the reserve fund, not the operating budget. He explained to members that the budget meetings are always open meetings and always working meetings. He added that the engineering studies noted in the list presented by Director Hembree are needed to determine the actual costs of the projects.

Former board president Alan Dinkelacker addressed the board and reminded them that a previous engineering study on the dredging had been done and wanted to know why another study was needed. Director Charles said that the information from an updated

study would help the LLA to possibly gain funding support for the project and said the project could cost up to \$4 million.

Resident Steve Ekanger asked what recourse the LLA had if no other support was gained and wanted to know if the cost for the lake desiltation would be spread out across the community. Director Frazier said that if no other support was achieved he believed the matter would have to go to the members for a referendum vote. He also explained to Mr. Dinkelacker that the money for the desiltation engineering study is a continuation of the study that was initiated previously by a board on which the former president served.

Aspen resident and former board president Tom Roland said that at the January 7 budget meeting that the desiltation committee chairperson Jim Reed told the board that the cost of the project would be \$15 million and asked which figure was correct. Director Frazier said that if only the original scope of the desiltation project was implemented the cost would be approximately \$5 million but if the scope was expanded, which is being considered at this time, the cost could go to \$30 million. He noted that the original scope of the project would essentially only clear a navigable channel to the eastern end of the lake. He added that LLA general manager Clay Edward believes that the goal should be to desilt the lake from the eastern end through to the Boyer's Mill Road Bridge. Mr. Roland said that the community probably could not afford the \$5 million price tag.

Aspen resident Kathy Brown asked the board to consider a separate meeting to review the desiltation project with residents but wondered why the board should spend \$65,000 on the engineering study if the project was so onerous for the community.

Westwinds residents Mike Dihmes asked why staff could not do the work required for the projects listed in Director Hembree's list. Director Frazier explained that the work required the professional services of engineers and said the LLA could not afford to keep an engineer on staff.

Director Frazier said that the GM has aerial and field surveys planned and are already included in the FY'09 budget at the 28-cent rate. He said the question on this matter was whether to spend the \$65,000 and go to permit or pay to do just one more step in the study to get the critical data the LLA needs to get financial support from a third party. The question was asked as to the history of Frederick city's help in the maintenance of the lake. Director Hembree explained that the city paid the entire bill on the Brosius Dam repairs completed three years ago, and that the LLA paid for the engineering design of the repairs.

Aspen resident Barb Hillard asked whether the association could apply for grants to help with the cost of the desiltation. Director Charles said that federal grants was part of what he did professionally and that he did look into available grants but at this time could not find any for which the association could qualify.

Mr. Dihmes asked what need Frederick would have of the lake if it goes to using water from the Potomac River in the near future. Director Frazier said the city would still need

the lake as a drinking water resource though the percentage of water supply to the city was not known. He added that the engineering study was needed in order to determine the volume of water in the lake at this time.

Director Frazier said the cost for the esplanade engineering study is already included in the budget and does include the cost for the core samples. He said in summary what remained to be considered is the road maintenance study and the engineering study of Edgewood and Hemlock Point roads and Eaglehead Drive. That would put the additional budget costs for consideration at \$70,000, which could be dealt with by setting the assessment rate at 29-cents. He recommended that the board not fund the full \$65,000 for the lake study but only budget for another section of the study that would get the LLA the data needed to go to the state with information about the water volume. Director Hembree said that he wanted to fund the full study and go for permit.

Director Paxton asked why the association could not take the money needed for the additional \$70,000 out of the reserve fund now. Director Jacobs said that the board could not look at the reserve fund in that way because it was to be used to plan for the future and especially so because the association for a long-time never had a reserve fund.

Mr. Ekanger told the board it should not price people out of the community. Mr. Dihmes said that the board had no right to increase the dues according to the covenants. Several residents and board members explained that the board did have the authority to set the assessment rate up to 75-cents per \$100. A member commented that the assessment should not be tied to property values. Director Paxton said that he would like to get rid of the covenant. Mrs. Hillard said she would be willing to head up a covenant changes committee to do that.

MOTION: Director Frazier made a motion to rescind the 33-cent assessment rate approved by the board on December 3, 2007 for the FY'09 budget. Director Hembree seconded the motion. **VOTE:** five of the directors voted in favor of the motion; one director voted against the motion (Hembree); one director (Charles) abstained from the motion.

Director Paxton said that he believed the 28-cent rate was a good balance for the FY'09 budget year and it did provide additional income for the association. He said he did not understand why the desilination costs asked for by Director Hembree could not come out of reserves and why reserve totals had to increase each year. Director Jacobs said that the reserves were for expected future costs and not for emergencies. Mr. Ekanger said that the board should keep the assessment rate reasonable for FY'09 and look at raising the rate as needed when the new reserve study was completed.

Director Frazier announced that the board would take comments from the floor:

- A Westwinds resident told the board that the village is seeing a lot of foreclosures and hardships for homeowners. She said that when buyers look at the dues of the association

and compare it to other HOAs, home sellers in Eaglehead cannot compete. She asked the board to set the rate at 28-cents.

- Kathy Brown of Aspen said that she understood the tremendous amount of care given to community issues by the directors but noted that over the past few years her dues have gone up 44 percent. She said that setting the rate at 33-cents was leaning toward the “corporate” and asked the board to be reasonable and set the rate at 28 –cents or 29-cents.
- A Coldstream resident said that a flat fee rate would set up a situation where the smaller homes would subsidize the larger homes.
- Gareth Koogle of Westwinds said that he had received misleading information from LLA employees about the budget and that there were dollars “in buckets” that he did not understand. He said that assessment rates were scattered across the board and wanted to know why members were assessed on the size of their homes.
- Mr. Dihmes said that he believed the dues to be discriminatory and that people should pay the same fee for the same service.
- Matt Bernota reminded the board that housing values were higher in the past than now.
- Megan Tricoli of Westwinds said that she and her husband do not use the amenities and she lives in a village that pays the third highest assessment.
- Dan Byrd said that when people join boards of directors they always want to increase the reserves. He said the board should not set the rate at 33-cents just to “grow” the reserves.
- Nathan Kacur of Nightingale asked the board if the assessments for each village were averaged, where the total amount of property value was divided by the number of houses to come up with the overall or averaged dues. The directors said yes.
- Charles Miller of Pinehurst thanked the board for their work and asked why they voted earlier to set the rate at 33-cents.

Director Hembree explained that though LLA president Frazier had asked the board to lower the rate at the December meeting he rejected that notion because the association is facing rising expenses. He said that no other board has ever dropped a rate let alone kept it neutral. He added that the board will know better in the next year what its costs really are. He said that when property values drop, which he believed would happen soon, the association will most likely have to face squeezing things out of the budget. He apologized for taking such quick action on the 33-cent rate but said the decision was not made in a vacuum.

Director Paxton assured the members in attendance that they were not dealing with people who do not know anything about the budget process or the financial needs of the association and credited Director Frazier and others who have worked on these matters for some time. He said because of the directors’ familiarity with the financial issues they were comfortable making the earlier decision.

Mr. Dihmes asked about the gap in funding for the CDA. He said the homes in the CDA would see a rise in property value as a result of that and asked why the LLA had to budget money to that project. Director Frazier said the CDA is an LLA obligation and that delays in the project caused a gap in funding. He said the LLA provided supplemental funding because the roads are owned by the association.

- Mrs. Hillard said that the board needed to do expenditure more equitably sometimes and asked the board to hold the rate this year.

- Tim O'Keefe of Pinehurst thanked the board for listening to the people at the meeting and asked that the board set the rate at 28-cents or 29-cents.
- Mr. Roland said the reserve fund should be used to cover the cost of the infrastructure projects instead of raising the rate to 29-cents. He also asked that if the association could come up with a flat rate per village why it could not be done community-wide.
- Meadows resident Larry Dusold, who is the president of the Lake Linganore Conservation Society (LLCS) that oversees the CDA project, thanked the board for the discussion and said it was helpful.

Director Frazier gave the LLA directors an opportunity to comment:

- Director Paxton said there are a lot of "for sale" signs in the community and that the HOA dues are not a saleable point. He also said that he saw no justification for setting the rate at 33-cents.
- Director Jacobs said that his original consideration was based on the fact that the community's larger assets were not included in the 2002 reserve study. He said he could forego the dam reserve funds this year but wanted some funding for engineering for the desiltation project. He said the 28-cent rate may not reflect the future for the association. He added that for a long time the LLA dues had been too low and that residents have not been paying for the kind of community they live in.
- Director Allemang said that he voted for the 33-cent rate but he now feels he did not have all the information he needed. He said he believes the association can set the rate at 28-cents and wait until next year to make any needed increases.
- Director DiMeglio said that he wished that the board had the new reserve study to base its decision.
- Director Hembree asked if it was possible to use the surplus from this year to pay for the desiltation engineering study. Director Frazier said that the surplus funds were already pegged in to cover two of the items in Mr. Hembree's list of engineering studies.
- Director Charles said that he thought the board was making a mistake that it will regret. He said the community infrastructure is getting old and needs funds to repair it. He said that many residents/members do not understand what the reserve fund was for and added that dipping into the reserve fund now is analogous to "dipping into your retirement fund". He said that the need to build the reserve fund is expeditious.
- Director Frazier said he had been working on LLA finances for four years and that all considered he believes that a 28-cent or 29-cent rate was reasonable.

MOTION: Director Paxton made a motion to set the rate at 28-cents per \$100 for FY'09. Director Allemang seconded the motion. **VOTE:** five directors voted in favor of the motion; two directors (Charles/Hembree) voted against the motion.

ADJOURNMENT

Director Charles made a motion to adjourn the meeting. Director Allemang seconded the motion. The meeting was adjourned at 9:40 p.m.