



Frequently Asked Questions & Answers about a Dues Increase

Why Now?

1. Why are you proposing a \$7.00 per month dues increase now?

- The Dues Cap proposal (also posted on the members only website) provides more details, but simply put, Michaywé needs the money. For the past seven years, we have been operating at a dues level that was approved in 2015, while costs have consistently increased.
- From 2018, the Board of Directors borrowed money to offset these cost increases, which is why our debt grew to \$1.2 million. We reinvested \$135,000 in MOA assets for much needed repairs. A successful business approach was implemented that stopped the borrowings and concentrated on debt reduction. At the end of this year our long-term debt will fall below 1.1 million dollars.
- We are now experiencing the difficult side of economics – inflation, cost pressures, supply issues and increasingly growing transportation costs.

2. How did you arrive at a \$7.00 per month increase?

- The Board tried to structure the revenue enhancement program from an “Equality of Sacrifice” approach whereby all Michaywé’ stakeholders – Staff, Volunteers, Public Sales, Golf Leagues, Suppliers, Banks, and Members - all give a little, so no one must give a lot.
- The Board has looked at MOA’s present costs and a trend of projected future costs, less how much we believe can be offset by additional cost reductions and productivity improvements with the current rate of inflation and the rising costs for supplies and repairs to continue to keep the current amenities operational.

3. How did Michaywé cover increased costs for the last 7 years without dues increase?

- The Covid 19 pandemic has created a multitude of economic issues. Cost increases were offset through productivity improvements, cost reductions, volunteer support, donations, repair versus replace maintenance policies, deferral of discretionary spending and a decrease then an increase in public, non-dues revenue. The most crucial factor that the pandemic brought to us is an increase in labor and a lack of available employees.

4. Why not continue these types of actions going forward? Why do you want another \$7.00 per month?

- Of course, we will continue these actions, but since 2015, the most meaningful cost reductions and productivity improvement ideas have been exhausted. In addition, you can repair things for only so long before they eventually need to be replaced, volunteers and donations cannot keep pace with needs, and inflation is running at a higher pace.



5. What do I get for my present \$480 per year (\$40 per month dues)?

- The membership dues of \$480 per year presently do not fund all of MOA's operation and Asset replacements needs. 2021 had a cash short fall of \$59 per lot.
- In 2021, the subsidies used to cover the shortfall in dues totaled just shy of 1 million, which is approximately \$60 per lot. These funds came from rent, sundry income, donations, recovery of delinquent dues, and cash generated by Pines Club.
- Using 2021 year-end unaudited financial statements, the \$480 was spent on the following:

| <u>HOW YOUR \$480 DUES ARE SPENT</u> | | | |
|---|--------------------|---------------|---|
| \$480 | \$1,071,920 | | Gross Annual Dues Billed |
| | | | <u>MOA Expenses</u> |
| \$20 | \$45,197 | 4.2% | Unpaid Dues By Members |
| \$40 | \$89,280 | 8.3% | Lot Consolidation Discounts |
| \$49 | \$109,447 | 10.2% | Taxes & Insurance |
| \$47 | \$104,334 | 9.7% | Debt Service |
| \$72 | \$160,870 | 15.0% | Administration Costs |
| \$49 | \$108,598 | 10.1% | Indoor & Outdoor Pools |
| \$20 | \$44,074 | 4.1% | Ski Trail Grooming, Opal Lake, & Tennis |
| \$16 | \$36,311 | 3.4% | Professional Services - Public Auditors and Legal Costs |
| \$39 | \$86,820 | 8.1% | Repairs, Maintenance, & Supplies |
| \$46 | \$101,848 | 9.5% | Utilities & Other Expenses |
| \$45 | \$100,112 | 9.3% | Funding of Maintenance & Reserve Fund |
| \$38 | \$85,030 | 7.9% | Unpaid dues foreclosed to Otsego County |
| \$0 | \$0 | 0.0% | Subsidy to Pines Club |
| \$480 | \$1,071,921 | % | <u>Total Value</u> |
| | | | <u>Other Income used in cashflow</u> |
| \$0 | \$0 | 0.0% | Line of Credit |
| (\$79) | (\$175,829) | -132.8% | Replacement of Assets |
| \$38 | \$84,949 | 64.2% | Rent, Sundry Income, Donations, Other |
| \$100 | \$223,234 | 168.7% | Subsidy from Pines Club Corp |
| \$0 | \$0 | 0.0% | Collections Income from recovering delinquent dues |
| \$59 | \$132,354 | 100.0% | <u>Total Subsidies</u> |
| \$542 | \$1,204,274 | 100.0% | <u>Net Total Cost</u> |

6. What will I get for the extra \$7 per month?

- First, you will not incur the risk of a property value reduction or impairment of your ability to sell your property since nothing will change.
- Second, you will receive everything you get now, but the increase in accumulated costs due to inflation since 2015 will be paid for without borrowing more money.
- Third, there will be sufficient funds to address some of the discretionary facility needs (building, grounds, roads, walkways, etc.) that have been deferred due to a lack of funds.



7. You have asked for money before but got by. What is different this time?

- From 2002 through 2009, MOA continued to borrow money because it could not survive on the \$400 dues or get a dues increase approved. All of this changed in 2010 with our new business approach to operations.
- The only money our Treasurer has asked for before was an additional contribution to reduce debt, so money could be saved from interest payments.
- This is the first time our Treasurer (and we believe him) is telling us that we now need additional funds to support operations and keep up with inflation

8. How do you know your numbers are correct?

- Each year we are required to have an independent CPA firm audit and confirm Michaywé's financial statements.
- Since 2010, each year we have received a clean, unqualified certification by the outside accountants. (This was not true in prior years).

9. Nevertheless, I live on a fixed income. Why should I support this increase?

- Money is important to all of us, but the costs we cannot control will continue to climb. Even Social Security inflation adjustments have increased. Michaywé dues increases since 2015 have been zero.
- Lastly, we have set up several programs for members who wish to pay their dues in installments over the year. Please contact the MOA Office to make arrangements. These programs have become more popular in recent years.

Our Property Values

10. In prior communications, you have mentioned that Michaywé property sales and value improvements have recently generated momentum in Michaywé. Can you explain this?

- In 2010, there were 24 Michaywé homes that sold at an average price of \$113,700. By 2013, 57 Michaywé homes were sold and the average sales price had increased to \$123,408. This indicates a 237.5% increase in home sales and an increase in sales price of 8.5% for the period. In 2018 there were 84 homes sold with an average sales price of \$164,205. In 2021 the number of homes sold were 54 with an average price of \$240,590. While in the last 4 years the average number of homes rose to 67 homes, the average price rose 41%
- In Otsego County in 2010, 275 homes were sold with an average price of \$91,611. In 2013, this had risen to 478 homes sold averaging \$103,542. During the years 2010 through 2013, there was an increase of 173.8% in the number of homes sold in Otsego County. This is good news. In 2018 488 homes sold with an average price of \$160,868. In 2021 the number of homes sold were 480 with an average price of \$218,438. Increase in average sale price of homes in Otsego County rose 23% during the last four years.

11. To what do you attribute this improvement in real estate turnover and higher values?

- After a record-setting year of home sales in 2020, the housing market still shows no sign of cooling off. Strong demand drove intense competition among buyers, causing homes to fly off the market and pushing prices higher. Housing demand was already strong coming into the year with the large Millennial generation aging into prime first-time home-buying age and mortgage rates hovering near record lows. The widespread shift to remote work during the COVID-19 pandemic prompted many buyers to re-evaluate their housing options and supercharged demand. While many potential buyers faced unprecedented economic hardship because of the pandemic, others with stable income were eager to enter the housing market.



A large part is due to Michaywé being an attractive community with excellent amenities – golf, dining, cross-country skiing, tennis courts, indoor and outdoor pools, beach house and park, community events, and deed restrictions.

- Other comments have been how Michaywé's low dues of \$480 year especially in comparison to surrounding developments that provide little to nothing for a much greater amount. Even a family pool membership at the Otsego County Sportsplex is \$400 per year. Michaywé's dues are a bargain, and as the real estate values continue to explode, we hope Michaywé will be buyer's first choice.

12. How much of our Michaywé property values can be attributed to the facilities and amenities?

- This is a difficult number to quantify, but realtors have stated that a Michaywé home is worth approximately 15% to 20% more than a comparable home located elsewhere due to the attractive community and great amenities.

13. What happens if the \$7 per month dues increase does not pass?

- We do not want to borrow more money as we did in the past. If this dues increase is not approved, we will have to look for ways to reduce the scope of our operations through reduced services and amenities. After making so much progress during difficult economic times, it would be very disappointing to take these types of actions.

14. Will that adversely affect our property values?

- That is precisely what this whole initiative is about – protecting and improving our property values. As noted above, the real estate community attributes a large portion of our home value to the “present Michaywé operating model.”
- We have seen from polling new Michaywé Members that the planned community, low dues, and the amenities are the reasons they purchased property in Michaywé.
- Think about it. Without the attractive grounds, facilities, and amenities, Michaywé would be nothing more than a subdivision 7 miles from town and 3 miles off the highway. This would not command a price premium for our property.
- Currently, we are growing faster and have more stable property values than other communities and we need to maintain the momentum. Failing to approve this modest due increase puts this at risk.

15. What do you think would be the near and long-term result of service and amenity curtailments?

- Near term, obviously people buying property in Michaywé for the present facilities, services, and amenities will cease, which means lower demand for property and lower sales prices.
- People who chose to live in Michaywé because of the present planned community model may elect to leave and live somewhere else that meets their needs.
- In addition, those part time MOA Members who purchased property for weekend and summer recreation may also need to reassess their investments in Michaywé, as compared to somewhere that provides the activities they seek.
- All of this could mean more homes and lots on the market, more rental homes in the community from owners who cannot sell, and reduced property values for all.
- It is likely that there would be a gradual turnover in the mix of the community. Residents who appreciate the Michaywé business model and amenities would decline and may be replaced with people who care less about amenities - just a lower house price.
- All the positive momentum we have started with increased property sales, price appreciation, and growth would stop and probably decline. Would people pay more for less? Of course not, prices would decline.
- In addition, this would put further financial stress on the community and lead to a higher need for cash.



16. What are the long-term effects?

- If we “mothballed” Michaywé for a couple of years and then tried to re-open, it would be very difficult and very expensive - if not impossible. First, the Pines Club generates increased revenue each year and Michaywé dues revenue declines, so if you curtail the public amenities, we will need more cash to support core MOA needs.
- Also, all of the core customers of Michaywé – which include the golf leagues from around the state, banquet revenue, vacation rental customers, and so on – will have all moved on to somewhere else and you won't get them back easily.

Remember: If you are selling your property now or in the future, or your property will be a part of your estate, we all have one common interest, and that is to protect and enhance property value.

If somebody is interested in buying your property, an extra \$7 per month will not be a deciding factor affecting the sale or the price. However, reduced Michaywé services and amenities could greatly affect the price and your ability to sell. An additional \$7 per month is cheap insurance to protect a major investment.

Have You Considered...

17. Why not increase public sales at the Pines Club and leave the dues alone?

- Michaywé consists of two legal entities – MOA, which is the homeowner's association and is funded by member dues; and the Pines Club Corporation (PCC), which consists of our golf and restaurant operations and also maintains MOA's amenities and common grounds. Unlike MOA, PCC is funded by public revenue – not dues.
- We will continue to increase public sales at the Pines Club. During the Covid 19 pandemic Pines Club Corp was able to survive thru government PPP funding with no need for subsidies. This cash has helped supplement the dues shortfall in MOA. Public revenue is now 60% of total revenue and continues to increase.
- However, MOA's gross revenue from dues (which now only represents 40% of our total revenue) has decreased 33% during this same period due to lot consolidations (which results in \$90k of annual lost revenue and continues to grow each year), lots foreclosed by the county (another lost \$80k each year,) and chronic delinquent accounts \$45k each year.
- We expect to see this same pattern going forward – increases to public revenue but offsetting declines in dues revenue.

18. Why not increase prices at the restaurant and golf course?

- We do, and we look at this on a constant basis, but we must remain competitive in our marketplace. There is a limit to how much we can charge before business declines and leads to a bigger cash problem than we have now. Current Inflation rates and supply chain issues caused by the Covid 19 pandemic have us constantly changing prices especially in the restaurant. The Golf course has also had recent price changes due to the same issues of rising costs from supplies, utilities, gas, and labor to name a few.

19. How large is the unpaid dues amount, and why not try to recover this money?

- The total annual unpaid dues totaled approximately \$130,000 in 2021. \$85,000 was lost due to Otsego County tax foreclosures which is about 9% of the gross due's revenue. We work strenuously to recover all unpaid dues. The unpaid amount has improved by 50% from prior years, but we think we are approaching the point of diminishing returns. After we proceed with legal action by filing liens and seeking judgements on the remaining balance, we collect another \$45k unfortunately this takes time and legal fees to collect if we are even able to.



- Going forward, we should expect unpaid dues to remain at this level. There is no easy solution regarding ongoing lost dues revenue from lot consolidations or properties owned by the county, and we already take court action on all the chronic offenders.

20. We agree that MOA has done a lot with little. Are there other ways to increase near term funding?

- We continue to look for cost reductions and revenue growth opportunities from public sales, but we cannot stop the decline in dues revenue discussed earlier.
- In addition, it is important to understand that the Board is constrained by very rigid governance rules that were put in place in 2000.
- Michaywé has governance that can be changed with a simple majority approval of 51%; however, other governance changes require a two-thirds (67%) approval. In other words, on some matters a minority of 34% of the members can block something that 66% of the members approve.
- The Current board is seeking to sell two residential lots at Opal Lake Beach house, but the process is complicated and is not an immediate fix.

21. I am a vacant lot owner. Why do I have to pay the same dues as a homeowner when I do not even use the facilities and amenities?

- What you are suggesting is called tiered dues – a higher dues level for homeowners versus a lower dues level for vacant lot owners.
- We understand your concern. The Board considered trying to change in the past, but was threatened with a lawsuit, which could be very expensive to defend.
- But an offsetting argument from homeowners is that homeowners have a much higher investment in Michaywé; yet vacant lot owners still get an equal vote and own an equal share of Michaywé. This is how the governing documents were created.
- In the future, we need to address these issues and find a way to meet both homeowners' and lot owners' needs.

22. Why not refinance the bank debt and take advantage of the low interest rates today?

- We were able to negotiate a lower interest rate on our short-term and revolving credit lines, and we restructured our bank relationships to reduce credit card service fees. Long-term debt was refinanced in 2018.

23. As a lot owner, I am not seeing the same property value recovery as homes. Why?

- Things move in a cycle. We are just now seeing increases in property values and home sales, and for the first time in many years, new home construction is taking place. As this continues, it will drive increased sales and increased prices for lots.
- If we allow Michaywé to fall back into a stagnant mode, this will have negative repercussions for both homeowners and lot owners.

24. I live in the community, but I do not use the facilities or amenities. Why should I pay the same?

- Understood, but everyone owns an equal share of the association, and everyone's property receives a price appreciation because of the amenities, so all should share in the cost. It is a personal decision whether you choose to use Michaywé's facilities or not.



- An analogy would be like asking a hotel for a rate adjustment when you check out because you did not use the health club or pool during your stay.

25. Why not charge an amenity user fee? Why should members who swim, ski, and play tennis with no additional charge, while I have to pay for golf and dining at the restaurant?

- First, there is mix of amenity users – some use them frequently, some on just weekends or holidays, some for just children and grandchildren, and some not at all.
- We looked at amenity fees, but our financial analysis indicates a reasonably priced amenity fee would not cover our funding shortfall.

26. Why not sell or lease the golf course and restaurant?

It is the steady decline in MOA dues and inflation that are the problems. If we closed or sold the Pines Club, where would we make up the revenue it presently generates?

- Any buyer or lender would probably want a guaranteed revenue stream from MOA as a precondition for a sale or lease and we could not provide that. It has been pointed out to the Board that facilities do not have the size and construction that investors would need in a commercial restaurant.
- Lastly, the same staff that operates our Pines Club also does other things for Michaywé at no charge such as snow plowing, cutting grass on common areas, pool maintenance, beach and tennis maintenance and repairs. We would have to pay a third party to do this. It is just not cost effective, nor does it make good business sense.

27. Why not reduce the MOA Office Staff?

- We did. It became apparent when developing the Operations Budget that MOA would continue to experience a decline in revenue again in 2015. Eliminating staff was a proactive action designed to cut expenses. In order to make this change work, the time that the MOA Office is open to the public has been reduced to allow the remaining staff to absorb the extra workload.
- MOA now has an office staff of four people Mary our General Manager, Sarah our Controller, Jackie our Administrator, and Kirby our Deed Restriction Manager. In 2021 the MOA Board decided to hire a Deed Restriction Manager to enforce the rules and regulations of Michaywé.
- They are responsible for managing the association's accounting, dues collection, legal issues, operations, taxes, maintenance, planning, management of all of the amenities, and enforcing rules and regulations. This is in addition to overseeing and protecting MOA's (yours and mine) ownership interest of the Pines Club.
- This is a small staff for a \$2.2 million business and the Board puts tremendous pressure on them for performance.

28. Is there any waste in the system? Can you cut down on mailings, and elections?

- There is always a little bit of waste in any system, and we continue to address it, but there is nothing of a significant magnitude. If anyone has ideas, please submit them.
- As for mailings, we have a responsibility to communicate with the Membership. A large percentage of Members still do not want to provide their e-mail addresses. Sometimes it is cheaper to mail everything than to incur the added labor cost to pull out those for whom we do not have an e-mail address. We hope that we will get to 100% emails soon. This subject is on our radar, but it costs money to implement using reputable resources to protect our information.



- Elections must be run according to our governance requirements. First, we are required to have an annual election. Sometimes material issues develop during the year that require member approval and a special election may be held. In addition, if any member has a proposal with 100+ signatures on a petition, then that may also result in another election, thus more mailing costs, with legal fees, etc.

Our Debt Burden

29. How bad is Michaywé's debt problem?

As noted earlier, between 2002 and 2009, Michaywé accumulated approximately \$1.8 million in debt. The annual debt service (interest and principal) we pay each year nears \$200,000.

30. Total debt of \$1.2 million seems like a lot of money.

- Michaywé has accumulated \$9 Million in assets since the lawsuit of 2000 at which time it took over all the amenities from the developer. Obviously, we would like to be debt free. If we stay the course, it will happen soon. We have made tremendous progress in recent years on this issue, but all businesses carry some debt, and we can certainly manage a small amount much better.

31. How will this \$7.00 dues initiative affect our new credit agreement?

- Clearly, a full-functioning, well-maintained entity that is not struggling financially would receive better lending terms and conditions.

32. Where did this \$1.2 million bank debt come from?

- A number of sources: Some of it came from the unpaid costs of the clubhouse renovation and second swimming pool when the association took control of the amenities from the developer in 2000. Part of it came from the golf course renovation project. Another portion of it came from rolling short-term debt into the long-term debt. In prior years, when bank debt was refinanced, the practice was to pay legal and bank fees with more debt - not cash.

Summary

To summarize, MOA's policies, bylaws, and deed restrictions limit the flexibility (and sometimes fairness) of options to manage the Association. Even so, Michaywé has made great strides over the years in a very difficult economic environment. As a result, we are seeing new construction and increased home and lot sales at higher prices. We need to protect and increase that momentum. It is not reasonable to think any business can provide the same product or service at the same price for 7 years.

A simple dues increase of only \$7

.00 per month will supplement the hard work done by many and place Michaywé on a firm financial footing for the future. The alternative of curtailing services and amenities, which will result in lower property values, should be unacceptable to us all. Please vote for this dues increase.