

POA DUES COMMITTEE STUDY

FINAL REPORT

November 17, 2015

Motivation for Study

In a September 1 POA long-range plan meeting with the GC community, the POA Board announced that annual dues would be increased by 10% in 2016 and recommended that they be increased by 10% each of the following three years (2017 – 2019) to finance GC road resurfacing. Resident comments during and following that meeting pointed to the fact that, given our current structure, annual dues are a larger percentage of lower-priced homes than higher-priced. The concern was raised that the affordability of lower-priced homes in GC will be negatively affected by dues increases. The question of whether GC should change its annual dues structure was raised, and an alternative structure, based on county property taxes, was suggested. The POA Board approved a study to address that question.

Committee Mission

An ad-hoc Dues Committee was formed to determine if compelling justification exists to change the POA annual dues structure, or, conversely, if there was a compelling reason not to change. The identification of a compelling reason for change was important because (a) the current dues structure has been in place for 26 years and (b) all 1,200 GC properties have been purchased on the basis of this dues structure. Therefore there should be a high hurdle for making a change.

If a compelling justification could not be found, the committee was to explain why. If a compelling justification were found to exist, the Committee would:

- Identify the reasons
- Explore a county tax-based system or other dues structures that might be offered
- Pro/con the alternatives

Upon completion of its work, the Committee would make a recommendation to the POA Board. Bottom line, the committee found no compelling justification exists for changing the annual dues structure.

Committee Membership and Operation

An eight-person committee was formed. Members of the committee were:

- Dick Amistadi Joe Gannon Corinne Houpt Gus Koliass
- Tony Laughrey Bill Patchett Chris Wittmayer Cathy Wright

Les Stuewer served as the POA Board liaison to the Dues Committee and served as its non-voting leader/facilitator.

Multiple criteria drove the committee membership:

- Given the tax values of their homes, half of the eight voting members would financially benefit from a change to a tax-based dues structure, and half would be financially disadvantaged. The members of the committee represented the total range of homes priced from under \$400k to over \$2.5M. This distribution would ensure that both sides would be equally represented in discussions of the effect of a dues structural change to a tax-based system.
- Various neighborhoods in GC would be represented by the 8 voting committee members. Specifically,
 - Two committee members were from GC Village Home sites representative of such neighborhoods as Stone Brook, Vance Villas, Tryon Courte, Governors Square
 - Two committee members were from GC Residential Homes representative of such neighborhoods as Saddle Ridge, Morehead Forest, Wilkinson Park
 - Three committee members were from GC Estate Homes
 - One committee member was from a GC Grand Estate Home
- Committee members were viewed as good listeners and thoughtful problem solvers who would act in the best interests of the community rather than how it would affect them personally
- Half of the selected participants were people who had been previously elected by the community to serve on the POA Board

During and between the Committee's two meetings, the group reviewed:

- Input from realtors
- POA 2016 expenses
- Emails sent to the Board by residents expressing opinions on the issue
- County tax records of GC real estate values
- Governors Club real estate sales data
- Real estate sales data from surrounding communities
- Results of internet searches for NC communities similar to GC
- Legal advice

GC Real Estate Comparison

In terms of dollars per square foot (\$/sq. ft.), GC real estate notably lags (see Figure 1) that of Orange County (e.g., Oaks of Chapel Hill), slightly lags that of Durham County (e.g., Meadowmont), and exceeds that of other Chatham County communities (e.g., Briar Chapel). Governors Club has lost value in terms of \$/sq. ft. versus the Oaks of Chapel Hill over the last several years (see Figure 2). The question for this committee, as defined by the Board request, was whether GC dues are a significant contributing factor to its marketing issue, particularly for the lower priced homes.

Governors Club Home Sales

On a YTD 2015 basis, Figure 3 shows GC home sales data in three home price categories (less than \$500k, \$500-750k, and over \$750k). On average for the community, 38% of the homes actively marketed in 2015 have sold. The percentage was higher for those homes in the lower and medium price ranges and lower for the higher price range homes.

On the same basis, Figure 4 shows GC home sales in the same three price ranges against the total number of homes in each of the three price ranges. Homes in the lower and medium price categories sold at a higher proportional rate than their fraction of all GC homes and their proportion of homes placed on the market. Higher price homes sold at lower proportional rate.

These sales distributions do not demonstrate a negative impact by dues structure on lower priced homes.

Community Comparison of Dues Plus Taxes

Figure 5 compares the annual sum of county taxes plus homeowner dues for various communities and various home prices. It is based on the premise that a meaningful comparison of GC dues versus other area communities should include consideration of the applicable county taxes for each of the communities. The table demonstrates that today's total of taxes and dues is generally favorable for GC vs. homes in Orange and Durham Counties (as the result of their higher county tax rates). Those areas are the same ones against which our property values lag, suggesting that our dues are not today, and have not been, the driving force for the lag.

Additionally the table shows how four years of 10% dues increases change the comparisons. When analyzing *every individual* GC home's county tax payment plus dues, the data reveals the following:

1. Compared to the Oaks in Orange County, all but 30 homes (those under \$420K) in GC have a lower tax plus dues total today. After 4 years of GC dues increases, and assuming nothing else changes, all but 290 of our homes will have a lower tax and dues total, those homes valued below \$600K. 100 of the 290 would have an unfavorable total of \$10 - \$275. The next 135 of the 290 would have an unfavorable total of \$275 - \$540. The most disadvantaged home would have a difference of \$1,590. To put these comparisons in perspective, the direct costs of being a gated community (i.e., gates and roads) is projected to be \$2,300 per lot in four years. The Oaks is not a gated community, so it would not incur the costs or benefits of a gated community.
2. Compared to Treyburn in Durham County, all but 11 homes (those under \$280K) have a lower tax/dues total today. After the dues increases, all but 56 homes (under \$440K) would have a lower tax/dues total.
3. Compared to the Preserve at Jordan Lake in Chatham County, GC will always have a tax/dues total difference by the amount of the dues difference, since taxes are equal. Their dues are currently \$1,000 per year, but of course they have no costs associated with privacy, since they are not gated.

All potential purchasers of GC homes have to make a value-received-versus-cost decision (i.e., whether the differences in dues and taxes for the communities in which they are considering buying are justified by the differences in value, e.g., gated privacy).

Realtor Input

The Committee received varied input from four realtors who live and buy/sell homes in GC. Realtor A made the point that the primary issues to potential GC home buyers are the condition of the homes and

the fear of special assessments. Homeowner dues are a part of the decision process, though when combined with taxes are not a deal breaker.

Realtor B said that homeowner dues are a significant consideration. When combined with taxes, they become less of an issue. Dues will not be the issue that drives buyers out of GC.

Realtor C said that the proposed 10% per year increase over the next four years will have a marked negative effect on the sales of lower-valued GC homes.

Realtor D said that moving to a tax-based structure will cause friction between GC residents and hurt property values. This realtor expressed a preference for special assessments over dues increases.

Other North Carolina Communities

Of the 1,600+ NC homeowners associations represented by the POA Board's attorney's firm, every single family community uses a one-lot, one-assessment structure similar to that of GC. Not one uses a structure based on tax value. [After the committee completed its work, we also learned that of the ~1,200 NC communities managed by the GC POA management firm (CAS), every single family community uses a one-lot, one-assessment structure similar to that of GC (note that there may be overlap between the 1,600 and 1,200 communities). Also, we became aware of one small NC community (90 homes, 26 acres) that does not use a flat assessment structure but uses a system built around services to homes (e.g., yard maintenance, etc.).]

Additional information was collected on six communities (Figure 6) that are similar to GC in terms of size, age, number of homes, and value of homes. This data was collected to determine whether communities with a wide range of home values (like GC) had annual dues structures similar to those with less divergent (i.e., more homogenous) values. The Committee found that all these communities use a "flat" dues structure (like GC's) in which expenses are divided evenly among lots. In these six communities, unimproved lots are assessed at a level of 60% to 100% of improved lots, but none are assessed on a different dues structure.

Legal Advice

The Committee received legal advice from the POA Board's attorney on changing the GC annual dues structure. Assessing annual dues on a tax value basis would not violate NC statutory law. However, basing assessments on tax valuations would increase the likelihood of legal challenges under common law due to:

- Ceding control to external authorities (i.e., Chatham County)
- Assessing based on criteria other than services used.

Any change to the GC dues structure would take a positive vote of over 800 (67%) of lots.

Qualitative Thoughts

In addition to the quantitative analyses above, the committee considered the following more qualitative thoughts:

- Currently GC residents share benefits and costs equally. No community cost is assigned to an individual (e.g., the repair of a buckled slab in front of a resident's home is paid by the POA and not by the resident). All benefits (appearance, security, roads, privacy, marketing) are available to all GC property owners.
- Equal service: Families receive the same amount of value from the POA independent of their home size/value
- A tax-based system would introduce difficult issues:
 - It would raise the question of how to revise the current premise of lot = 1 assessment = 1 vote 1
 - A resident's view of a change to a tax-based structure could depend on how their dues are affected ("eyes of the beholder")
 - The range of dues paid by residents could vary by a factor of up to 10 (e.g., the most expensive home owner versus the least expensive home owner would pay 10 times the annual dues, or a \$1M property owner in GC would pay 2-1/2 times the annual dues of a \$400k property owner for identical POA services). This is based on the suggested alternative dues structure being a flat ("dues tax") rate applied to the assessed property value.

Committee Conclusion

The Committee members made the following points at the conclusion of the final meeting:

- There is no evidence 2015 dues levels negatively affected medium and lower priced home sales. In fact, on some measures, lower and medium priced homes did relatively better
- The effect of dues increases needs to be closely monitored, as they will directionally reduce the competitiveness of GC versus surrounding communities.
- Community marketing efforts must be redoubled to continue addressing the property values issue. The dues structure is not a solution.
- The current dues method is fairer than a method based on property values. POA services are available to all owners equally and are not "consumed" according to their home's tax value
- The Committee could identify no North Carolina home owners association (in over 1,600) that uses a tax-based allocation system, including those with diverse property values such as GC
- Moving to a tax-based system introduces legal risks and associated costs to the GC POA

Seven committee members found (a) no compelling justification exists for changing the annual dues structure and (b) that there were compelling reasons not to change it. One committee member disagreed with this conclusion and resigned from the committee before a vote was taken. The committee voted 7-0 to recommend to the Board that it not change the POA dues structure.

Figure 1

2015 YTD Real Estate Comparison

		<u>City</u>	<u>County</u>	<u>\$/sqft</u>	<u>DOM</u>
1	Oaks & Meadowmont (Chapel Hill Golf Communities)	Chapel Hill	Orange	231	150
2	Southern Village	Chapel Hill	Orange	197	70
3	Not Oaks & Meadowmont	Chapel Hill	Orange	191	110
4	Oaks and Meadowmont (Chapel Hill Golf Communities)	Chapel Hill	Durham	170	81
5	Governors Club	Chapel Hill	Chatham	170	201
6	Briar Chapel	Chapel Hill	Chatham	153	122
7	Chatham County w/ Chapel Hill address (not golf or Briar Chapel)	Chapel Hill	Chatham	151	108
8	Legacy, Preserve @ Lake Jordan, Chapel Ridge	Chapel Hill	Chatham	141	182

Figure 2

Average Sales Price: Oaks vs Governors Club

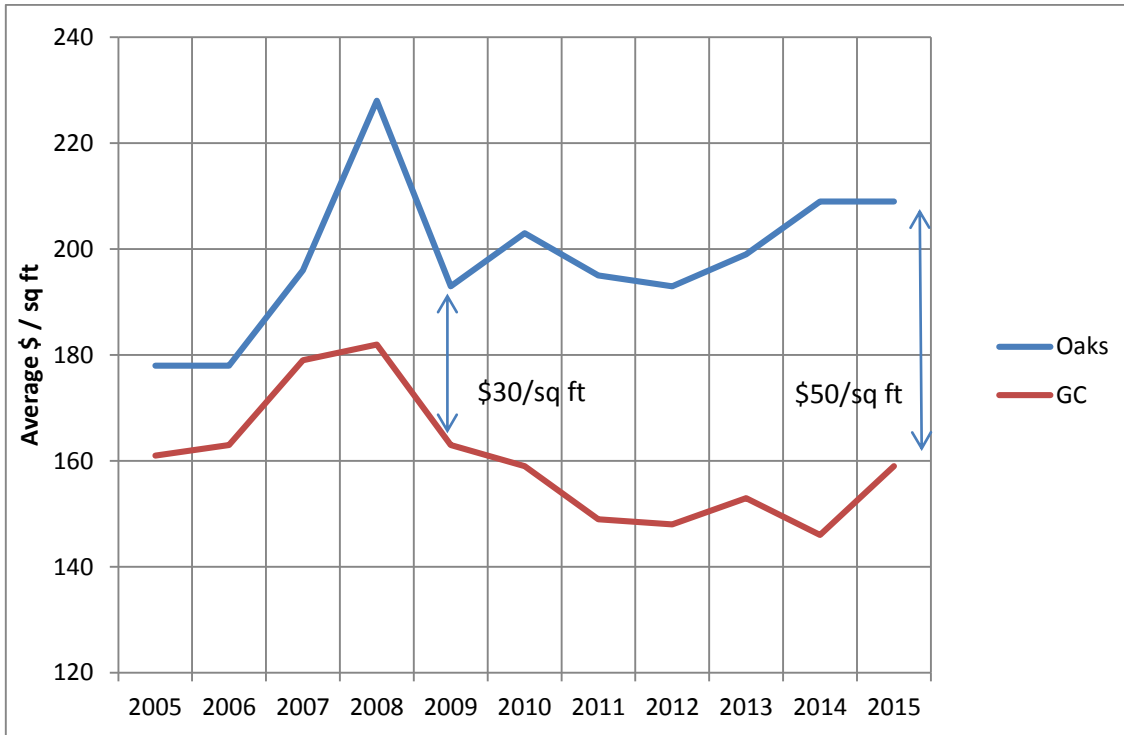


Figure 3

Governors Club Home Sales – 2015 YTD

	<u><\$500k</u>	<u>\$500-750k</u>	<u>>\$750k</u>	<u>Total</u>
Active	20	26	34	80
Sold	15	20	10	45
Pending	<u>0</u>	<u>2</u>	<u>2</u>	<u>4</u>
Total	35	48	46	129
% Pending and Sold	43%	46%	26%	38%

Figure 4

Governors Club Home Sales - 2015 YTD

	<u><\$500k</u>	<u>\$500-750k</u>	<u>>\$750k</u>	<u>Total</u>
% of Homes in GC (901)	13%	45%	42%	100%
% of GC Homes on the Market (129)	27%	37%	36%	100%
% of "On the Market" Homes Sold/Pending (49)	31%	45%	24%	100%

Figure 5

Area Property Tax and Dues Comparison

	<u>\$350k</u>	<u>\$500k</u>	<u>\$750k</u>	<u>After 4 years @ 10%</u> <u>(Only GC Changes)</u>
Orange (Oaks)	\$4,402	\$6,257	\$9,348	\$4,402 - \$9,348
Durham (Treyburn)	\$5,147	\$7,160	\$10,514	\$5,147 - \$10,514
Chatham (Preserve at Jordan Lake)	\$3,485	\$4,550	\$6,325	\$3,485 - \$6,325
Chatham (GC)	\$4,729	\$5,794	\$7,569	\$5,770 - \$8,610
# GC Properties	17	102	402	
	\$0-350k	\$350-500k	\$500-750k	

Figure 6

Other NC Community Dues Structures

Community Name/ Location	Lot Prices	Home Prices	Size	Age of Dev.	Dues Structure	
					Developed Lots	Undeveloped Lots
Landfall Wilmington	\$175K-1.5M	\$300K-3.5M	1535 homes 29 mi. rds	90's	Flat \$2204	100%
Uwharrie Point New London	\$20K-1.1M now listed	\$.4K-1.9M now listed	300 homes 508 lots	90's	Flat \$2020	100%
Carolina Trace Sanford	below GC	below GC	1600 homes 600 lots	70's	Flat \$325	1/6 of budget total
Connestee Falls Brevard	\$10k-100k	\$125k-1.0M	1,357 homes 600 lots	70's	Flat	60%
Cullasaja Highlands	\$300k-1M	\$400k-5.0M	330 homes 10 lots	80's	Flat \$3900	85%
Jefferson Landing on the New River Jefferson	\$100k-150k	homes \$250k-2.0M condos / townhomes \$150k-600k	500 homes	90's	Flat \$1100 Townhome added fees	Moving to 100%

All Communities

Gated with private roads

Golf Course w Separate POA/HOA

POA functions include Roads/Gates/Infrastructure/ARB/varying levels of Appearance