

Governors Club POA Board Position on Revising the Dues Structure

1.0 BACKGROUND

In the Community Meeting held on September 1, 2015 to discuss the Long Range Plan a resident raised a concern that the current dues structure within the Governors Club Community was unfair and resulted in the lower priced homes being uncompetitive in the market place. He also indicated that the proposed dues increases would make these homes even less competitive in the future and suggested that a dues structure based on property values would solve this problem.

The POA Board established an Ad Hoc Committee to determine if there was any information available that supported the resident's position and, if so, to evaluate the recommended proposal to modify the dues structure to one based on property values and provide its conclusions and recommendations to the Board for consideration.

The POA Board met on November 17th 2015 to review the committee's conclusions and recommendations. The review consisted of three sections.

1. A presentation by Bill Patchett representing the Ad Hoc Committee. The entire presentation and Final report has been placed on the POA Website for your review. The presentation described the objective, data collected and analyzed, conclusions derived from the data, and the committee recommendations. These recommendations was supported by seven of the eight ad hoc committee members.
2. A minority report was presented by Chris Wittmayer. The full report has been uploaded to the website for your review. The report outlines the proposal, rationale for proposing the changes, and issues that Mr. Whittmayer had with the ad hoc committee structure, conclusions and recommendations.
3. A discussion period where the Board requested clarifications of the information presented and additional explanations from the presenters or members of the ad hoc committee.

2.0 Ad Hoc Committee:

Bill Patchett, a member of the ad hoc committee, presented the information compiled and analyzed by the ad hoc committee. The information compared real estate sales, rate of sales within various price ranges, tax and dues cost in various communities and the impact on various market segments of the proposed change. The committee also sought advice on potential legal issues, requested input from realtors, reviewed the dues structure in other communities in North Carolina, and discussed other qualitative thoughts form the community. The information presented and discussed is all available on the POA website.

The ad hoc committee reached the following conclusions after reviewing the data:

- a. There is no compelling 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.
- b. The effect of dues increase needs to be closely monitored, as they directionally reduce the competitiveness of Governors Club versus surrounding communities.
- c. Community marketing efforts must be redoubled to continue addressing the property value issue. The dues structure is not a solution.
- d. The current dues is fairer than a method based on property values. POA services are available to all owners equally and are not “consumed” according to their homes tax value.
- e. The committee could identify no North Carolina home owners association (over 1600) that uses a tax based allocation system, including those with diverse property values such as Governors Club.
- f. Moving to a tax based system introduces legal risks and associated costs to the Governors Club POA.

These conclusion were supported by seven of the eight ad hoc committee members. Chris Wittmayer a member of the ad hoc committee resigned prior to the vote being taken.

3.0 Minority Report

Chris Wittmayer presented a minority report stating that the objective of the report was to improve all of our property values and to improve our competitive position. He stated that increasing the dues will harm the marketability of our less expensive properties. There was no information presented that supported this assertion to either the ad hoc committee or during the Board presentation or discussion.

He also stated that the committee was not representative of the diverse property owners in Governors Club and that a report from 2012 had been ignored. The ad hoc committee and Board disagreed with many of the assertions made in the minority report. The areas of agreement and disagreement are summarized in Attachment 1.

After hearing the conclusions of the Ad hoc committee the minority opinion representative indicated that he and his group intended to continue their efforts, via a website and other communications, in order to gain support to change the basis for dues allocation. The Board has concerns for the impact this will have on community cohesiveness and also ultimately on property values.

4.0 Conclusion

The Board agrees that change is always a challenge and that ensuring our homes in all price ranges remain competitive is of paramount importance; however, as we indicated in our September 1 Community meeting we believe our Road Resurfacing Program is necessary and will have a positive impact on property values that far outweighs the cost of the dues increases. Cost increases are always a concern and we believe we need to carefully monitor the impact going forward. However, we have seen no tangible, fact-based data at this point, that a change to a property value based allocation is a preferred option. The information provided by the ad hoc committee will be used as a baseline to assess the impact of future dues increases on the marketability of our homes in all price ranges. The Board

believes the recommendations of the ad hoc committee formed to evaluate this issue were well analyzed and should be adopted.

The Board voted six to zero with two abstentions to accept the recommendation of the ad hoc committee. The current procedure of allocating general assessments, or dues as they are generally described, will therefore continue to be the same dollar amount for each developed lot and seventy five (75%) of that amount for each un-developed lot.

Attachment 1 – Response to Minority Report

Areas of Agreement

The Board agrees that Governors club property values have been lagging the market for several years and that the competition will be increasing with the addition of additional new developments in the Triangle and Chatham County. Marketing and the “Product” (community and infrastructure) needs to be improved in order to remain competitive. The new website, joint marketing with the club, and improvement of our roads and infrastructure are all examples of work underway to improve in these areas.

There is also agreement that cost of ownership is a key consideration for buyers and raising annual dues does tend to hurt the marketability of homes; however, as the minority report points out we need to fix the roads and not doing so also hurts the marketability of our homes.

Areas of Disagreement

The Board disagrees with several assertions in the minority report. Those assertions and the Board’s response are detailed below:

1. **Assertion:** Dues structure primarily affects lower priced homes. **Response:** The data presented by the committee indicated that 38% of the homes actively marketed in 2015 have sold. The percentage of homes sold was higher for those homes in the lower (43%) and medium (46%) price ranges and lower (26%) for the higher price range homes. The data also shows that 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 priced homes sold at a lower proportional rate. These sales distributions do not support the premise that lower priced homes have been more adversely impacted by the current dues structure.
2. **Assertion:** Cost of road repairs has been underestimated. **Response:** The minority report states that “people in the know” have suggested that the projected cost of road repairs is based on very low estimates. The Board agrees that the cost of road construction is unpredictable; however, the current projections were made by individuals who have been involved in the actual roadwork and are familiar with our roads. Relying on estimates from unknown individuals would not appear to be the best approach. The Board would be willing to accept input from these individuals and revise estimates as appropriate. The cost increases included in the most recent estimates are consistent with higher repair costs experienced in the bidding of the current repair phase.
3. **Assertion:** Realtors input is uniform. **Response:** The committee received input from three realtors and the minority opinion author provided input from an additional “top realtor” that he spoke with. Two of the four felt that the dues when combined with taxes, would not be an issue that drives buyers out of Governors Club. One felt that the dues increase would have a significant

negative impact. The fourth felt that moving to a tax based structure would cause friction between residents and hurt property values. Obviously there are many differing opinions in the Real Estate Community.

4. **Assertion:** Tax-based dues structure is needed to help sell lower priced properties. **Response:** Assertions that residents owning lower priced properties will be unable to sell their homes, give up trying, and rent their property (resulting in more renters and transient residents) with fewer people joining the club are speculation and, again, not supported by any data. The current data show that selling homes at the higher price ranges is more difficult and requires more time. Implementing a value based structure, which would increase the dues of a \$3M home by 350% and result in them paying 10 times the amount paid for a \$300k home for the same services. The Board believes this will negatively affect the sales of higher priced homes.
5. **Assertion:** Tax-based system is used elsewhere. **Response:** The author indicates that a value based structure is not revolutionary and is used in many towns, counties, states etc. This is true, but it is not the case for homeowners associations. The dues committee determined that over 1,600 of the HOAs represented by the Board's attorney's firm use a one lot, one assessment structure similar to the current structure in Governors Club. Not one uses a structure based on tax value. The committee also collected data on six NC communities that are similar to GC in terms of size, age, number of homes, and diversity of value of homes. All these communities use a "flat" dues structure (like GC's) in which expenses are divided evenly among lots.
6. **Assertion:** Committee was not representative of GC homeowners. **Response:** One issue raised in the minority paper was that the dues committee was not representative of the diverse owners and neighborhoods in Governors Club. The committee and Board disagree with this opinion. The fundamental premise put forth was that dues should be based on the value of a home. The members of the committee were respected members of the community that represented the total spectrum of homes priced from under \$400k to over \$2.5m. Half the committee members would likely be positively impacted financially while the other four would be negatively affected by the suggested change. In addition to the eight members on the committee, Les Stuewer, a member of the Board, was requested to be the Board Liaison and facilitator for the committee. This is the same structure used on almost all the POA committees. This structure was discussed in the initial meeting and it was stated that Les was not a voting member of the committee. The minority opinion paper erroneously includes Les in all his data relating to the committee structure.
7. **Assertion:** A 2012 study by the POA Long Range Planning Committee was ignored. **Response:** The referenced study was the work product of a few members of the committee. However, as a whole, the committee decided not to use the study since it compared dissimilar communities. In addition, the committee did not believe they could support the conclusions based on the data in the study. The study was never formally published or acted upon since it was never included in the Long Range Plan or presented to the Board for consideration or vetting. The Immortality Report presented to the community in 2014 provides comparisons between Governors Club and similar communities in the area. These comparisons are considered more accurate assessments and their findings have been the basis for many of the actions currently underway within the community.

