2025 Proposed Dues Increase
Answers to Member Questions #2
As of October 4, 2024

In an effort to create a full understanding of our current financial challenges and an appreciation of our need for additional operating funds (via a member dues increase), we continue to encourage Colonists to submit questions, directed to office@mlcolony.org. If you are not aware of our current situation, and to give this document context, we encourage your review of two short videos. You might also find a review of our first "Answers to Member Questions" helpful.

1. **MLC Insurance Update: Click Here**
2. **Dues Proposal Update: Click Here**
3. **Answers to Member Questions #1 – September 20, 2024: Click Here**

Here are answers to some of the questions and comments received to October 4, 2024.

1. What happens if the dues increase proposal is not approved?

Unlike last year, there is no nuance to answering this question. A significant part of the 2024 approved increase was founded in a combination of forward thinking and corrective initiatives and actions. They included dedicated capital improvement funds, transition and succession planning, and a significant increase (150%) to our lake cleaning budget.

This year, the increase is about restoring cash balances and creating a requisite funding stream for basic operations, driven primarily by increased insurance costs. Given that we must pay our insurance premiums, non-passage would require reduced spending in discretionary areas. This would most likely mean cutbacks in lake maintenance, property and building repairs, and general maintenance. Using the cost assumptions noted, we need this dues increase to pay the bills associated with our current service level.

2. You mentioned that a "driving force" in the dues increase proposal model was a 25% annual increase assumption applied to our insurance program. You described this assumption as "aggressive" out of an abundance of caution. What happens if the actual insurance costs come in lower than 25% this year or in the future?

We now operate on a budgetary system of cost control. Authorized expenditures are established at the beginning of each year on a category-by-category basis. We do not operate on the "use-it-or-lose it" principle, an approach attributed to some government agencies. If not necessary, we don't "use-it." If there is an **under**spending in a given category that results in an unexpected operating surplus at year-end, that surplus would be carried into the following year and would mitigate the need for a subsequent year's dues increase. Transfers of "available funds" from one account to another during a fiscal year, or creating an unbudgeted initiative, requires board approval.

3. ***What is the effect of the Nokomis Woods purchase on the current General Operating Budget? Would the sale of the Nokomis Woods property be a solution to the General Fund's 2024 and 2025 funding shortfalls?***

This question relates to a May 2019 purchase of two real estate parcels near Nokomis Elementary School that we've come to call "Nokomis Woods." The purchase price of approximately $300K (plus costs) was funded by a combination of member assessments and a $200,000 inter-fund loan from the Lakes Restoration Fund to the General Operating Fund in that year. The inter-fund loan transaction has been reviewed by both the Colony's auditor and solicitor and deemed allowable. That loan was memorialized by a 20-year amortization repayment schedule that calls for $5,617 annual payments, which are accounted for as expenditures from the General Operating Fund.

Payments on that loan have been faithfully made from inception. The outstanding (audited) loan balance as of 12/31/2023 is around $151K. Selling the property would have a marginal positive effect on the General Operating Account budget in that the repayment expenditure would be eliminated. As to the disposition of sale proceeds? That is a function of the sale's net profits. Of course, the first dollar distribution would be to repay the Lakes Restoration Fund in full. The residual balance would be used at the board's discretion. The most appropriate use would be to divert it to a "capital use" fund following the principle that you should only use one-time revenue to offset one-time expenditures. Regardless of any future financial benefit, it is the Board's position that it does **not** have the authority to affect a sale without specific membership approval. The purchase was approved by a vote of 551 to 89 in 2019, so we assume that the membership overwhelmingly wants property ownership. We will not unilaterally over-rule that decision.

4. ***What <u>major</u> capital improvement projects are included in the 2025 and 2026 General Operating projections?***

None. The Colony membership created a separate Capital Expenditure Fund in 2023 for the purpose of accumulating funds for large building and property-related projects and authorized the board to create policy for its use. $110 of each member's dues are allocated to this fund. Therefore, **no** major capital projects are assigned to the General Operating Budget.

Figure 5: How Are Your Dues Distributed?

	2024 Actual	2025 (Proposed)
Lakes Restoration Fund	$ 145	$ 145
Capital Improvement Fund *	55	55
Major Project Fund *	55	55
General Operations	370	470
Dues Total	**$ 625**	**$ 725**

Note: Distribution is for regular member dues. Over-65 dues are proposed at $625. Distribution to General Operations would be $100 less.

5. Can you explain the differential between the "Regular" and "Over 65" dues structure?

Figure 1: Proposed 2025 Fee Schedule Changes – Effective January 1		
	Current	New
Regular	$ 625	$ 725
Over 65	$ 525	$ 625
These are annual amounts, but there will be install-ment payment options available for both membership categories.		

There has been an historic differential between "Regular" and "Senior" dues, with member households with one member over 65 being granted a discount. The rationale for the discount is that younger members tend to use Colony facilities more than older members. Further, our society-in-general tends to grant seniors discounts on the assumption that retirees have less disposable income than their employed and younger counterparts.

Our recent history (since 2009) has been to quantify that differential at $100. From 1990 to 2009, the differential (for three sets of dues structures between 1990 and 2009) was set at 86%. Which is the correct approach? Ironically (and by accident), the 2025 proposal is a merging of both. We retained the $100 differential between regular and senior rates (the post-2009 method), which so happens to be 86% (the pre-2009 method).