UNDERSTANDING THE DUES INCREASE PROPOSAL
TO BE PRESENTED FOR MEMBERSHIP VOTE ON OCTOBER 28
(ALL-DAY VOTING BEGINNING AT 8:00 AM)

There will be a membership vote on a proposed dues increase on October 28 with all-day voting beginning at 8:00 AM in Vaughan Hall's Demby Annex. Voting will conclude at 7:15 PM on that day with results to be reported during the Colony's annual meeting, which will be held that evening.

Proposed changes to the existing dues structure are summarized in Figure 1.

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 installment payment options available for both membership categories.		

What Is the Need?

First: please understand that this is the last thing your board wants to ask of you. We are painfully aware that this 2025 proposal comes in the year following last year's significant increase (our first dues increase in 15 years). Back-to-back increases were not a part of our 2024 financial recovery and capital improvement plan (which you overwhelmingly approved). Unfortunately, drastic and unexpected changes in the insurance market, and accepting that new reality, make it necessary for a change in those plans.

We need an increased funding stream in the general operating fund for two reasons: (1) to restore a viable working cash balance and (2) to pay for anticipated future budget increases in accordance with our new understanding of the insurance marketplace in which we now live.

Working Cash Balance: Our minimum "cash-in-the-bank" target is $125,000, a reasonable and responsible working capital level for an operation our size. The benchmark is based on a percentage of operating budget. Working capital allows an organization to absorb unexpected costs and also cash flow shortfalls in its operating cycle.

Because of increased insurance-related costs this year, we project that our 2024 general operating fund cash balance will decline to about $38,000 by year-end. Projecting costs into 2025, we will be unable to pay our bills at our current level of service without a dues increase. Figure 2 shows our projected cash balances based on our current level of operations.

Figure 2: Projected Cash Balances ($): Operating Fund <u>WITHOUT</u> the Dues Increase				
Year	Beginning Cash	Revenue	Expense	Ending Cash
2024	122,470	573,770	658,199	38,041
2025	38,041	572,450	624,429	(13,938)
2026	(13,938)	573,150	683,495	(124,283)
Amounts shown in (parenthesis) are negative balances – projected cash deficits.				

The projected fee schedule changes in Figure 1 will restore our general operating fund to the targeted cash amount and also cover anticipated increased future operating costs.

Figure 3: Projected Cash Balances ($): Operating Fund <u>WITH</u> the Dues Increase				
Year	Beginning Cash	Revenue	Expense	Ending Cash
2024	122,470	537,770	658,199	38,041
2025	38,041	712,450	624,429	126,062
2026	126,062	713,150	683,495	155,717
2027	155,717	716,150	742,175	129,692

Anticipated Future Cost Increases: The primary expense driver in our projected future cost profile is an assumption of across-the-board insurance program increases. Our projection model assumes a 25% annual increase for all coverages. Too high? Too low? We will only know with the passage of time and policy quotes, which are unknown at this time. Our unfortunate recent experience, however, has shown us that this is the most volatile of our expense categories. Natural or man-made disasters seem to ripple through the marketplace with an exaggerated effect on entities like ours. Organizations with lakes, beaches, and dams are risks that insurance underwriters increasingly avoid. For the past two years, we have underestimated our insurance program costs and are now taking a cautious approach and are using a 25% estimate.

Our Insurance Cost Profile

Our insurance program cost projections must be understood in the context of the historic and game-changing shared services agreement we entered into with Medford Lakes Borough in September 2024.

You will recall that our 2024-25 liability insurance renewal increased from $50,000 to $250,000 in June. As devastating as this news was to our short-term cash-flow planning, the long-term implications were even more severe, and it is difficult to overstate their significance. With the prospect of liability insurance coverage continuing to grow at alarming rates (or even becoming unavailable), our very existence as an independent entity was threatened.

Borough Assistance: The Medford Lakes Borough Council, in close cooperation with the Camden County Municipal Joint Insurance Fund (JIF), agreed to add Medford Lakes Colony as an "additional named insured." This action took us out of the "private" marketplace and into the much more stable municipal sector. That $250,000 program was replaced with an equivalent program (better in some areas) at an annual cost of $68,000.

With the Borough Council's intervention and assistance, we project that over five years we will have avoided as much as $1.5 million in future liability insurance premiums. To continue operations, it otherwise would have been necessary to pass those costs along to Colony members – about $1,000 per member over that five-year period! And other operating costs would be in addition to that amount.

Because of the Borough's lifeline, our insurance program costs are now manageable and realistically within our ability to pay within a viable dues structure. Of course, our insurance program costs will rise, but our likely experience will be far less severe than what it would have been without JIF participation. If you have the opportunity to do so, thank our Borough Council members and administration for this.

Our Insurance Program: In video and written presentations sent to all Colonists on this subject, we've emphasized that the story of this dues increase proposal is the story of our insurance program.

Most attention has been directed toward our liability coverage. But we have six major program areas paid from the general operating fund. It is only our liability program that is eligible for JIF participation. Other program components remain in the "private" market-place. Figure 4 shows our "base-line" costs. This is the cost represented by our most recent premium in each given category.

Figure 4: Insurance Program Costs

	Annual Cost	Expiration
Commercial Package	$ 4,527	11/30/24
Liability/Excess	68,195	9/15/25
Directors/EPL/Crime	7,372	6/15/25
Auto	4,026	11/30/24
Worker Compensation	13,264	11/30/24
Cyber	1,120	6/15/25
Total Base-line Cost	$ 98,954	

It is from this baseline that we projected our future program costs, and we used an increase assumption of 25% per year in doing so. Again, that percentage might be high and it might be low. But note that all the 2025 costs are unknown at this point because they have not yet been quoted. If we had a cash cushion from which we could absorb underbudgeted costs, we could perhaps use a low contingency estimate.

But with depleted cash reserves, the board is not willing to take the risk.

Our Dues History in Perspective

The Colony's financial history is one of infrequent dues increases – on average about one every eight years or so over the past 40 years. When they come, they seem large because they are levied to "catch up" with several prior years of inflation associated with the normal cost of doing business.

Even with the significant increases of the past two years, however, our dues have only increased at a rate of 3% per year from 1990 to 2025. In other words, if there had been consistent inflation-based increases over that period, our member dues would be around $725 in 2025, a level that we are now proposing.

On that subject: you will note in the formal dues announcement (on page 4), that a separate by-law change is proposed to allow for a 2.5% "increase-not-to-exceed" amount with board approval. Increases above that amount would require member approval as they do now.

It is our hope that – with this provision – we will avoid the need for disproportionate increases like the ones we've recently asked of you.

Distribution of Annual Dues

Your dues are distributed in accordance with the by-laws to separate funds as shown in Figure 5. This proposal makes no change in that distribution system. The entire increase will go to the General Operating Fund, primarily to pay increased insurance costs.

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**

Figure 5 shows regular member dues. Over 65 distribution is the same for the three special-purpose funds (e.g., Lakes Restoration) but $100 less would be directed to the General Operating Fund under the proposed schedule.

Our fund system creates four stand-alone accounting entities. There is no proposed change to this system.

- Lakes Restoration Fund: For payment of expenses relating to cleaning and maintaining the lakes, including dams and appurtenant structures (e.g., bulkheads and spillways).
- Capital Improvement Fund: For major building and property improvements not considered to be routine, typically costing between $5,000 and $50,000.
- Major Projects Fund: To accumulate funds for major projects so large that they would require short or long-term financing, typically costing in excess of $50,000.
- General Operating Fund: For expenses associated with office, maintenance, lifeguard, and tag checker payroll; general operations; utilities; insurance program; social and recreation program costs; repairs, equipment and maintenance for 20 real estate parcels including five beaches, three recreational complexes, Vaughan Community Hall, pavilions, and service buildings; dock complexes; lakebed maintenance for 21 lakes; water quality maintenance and testing for 153 million gallons of water.

Member dues do not subsidize direct costs of day camp operations, Canoe Carnival, MLAA, or other auxiliary operations. These activities are self-funded.

What if the Dues Proposal Fails?

There is little nuance in the answer. There are no new program initiatives in this proposal. The increase is all about paying expenses required by our current level of operations projected based on the assumptions noted – driven primarily by a concern for insurance cost increases. Without a dues increase, we won't have money to pay the bills required under these assumptions. We will be forced to alter our programs and reduce services and discretionary spending. This would primarily involve lake maintenance, property repairs, and preventive maintenance activities. It is these budget-category types that are typically cut in times of budgetary stress.

Our flexibility is limited by the by-law provisions that created the set-aside funds. They were created for a specific purpose and their funding stream cannot be diverted without member approval. We could not, for example, dissolve the Capital Expenditure Funds and use monies designated for "capital" purposes for general operating expenditures.

As to the future: We've learned much about unanticipated expenditures from this experience and have admitted caution in our financial projection. We do believe that this increase will put us back on track to achieve the goals you approved last year and allow us to deliver the quality of operation you expect. Our overarching goal in all of this is to remain strong and unchanged.

BOARD DUES INCREASE PROPOSAL PACKAGE

Voting Rules

- One vote per member-household. It is the property owner who is entitled to vote – not a tenant.
- Members in good standing. If you recently received a notice that you have an outstanding dues balance, that is a notice that you are not a member in good standing. To vote, you must be a currently paid-up member.
- Ballots will be cast between 8:00 AM and 7:15 PM in Demby Annex. Votes will be counted by a three-member judging panel and reported that evening.

BALLOT PART 1: PROPOSED FEE SCHEDULE and INSTALLMENT PAYMENT REVISIONS

Active Member Classification	**Current**	**Proposed (1/1/2025)**
Regular	$625	$725
Over 65	$525	$625

Included in the listed fees are: (1) $145 for the Lakes Restoration Fund (no change) and $110 for the Capital Expenditures Fund (no change) for Regular and Over 65 members. There will be installment payment options.

PROPOSED BY-LAW CHANGES RELATING TO THE FEE SCHEDULE CHANGES
Note: These changes will be a part of the dues increase vote

Language	**Explanation**
Article VII Section 5. Fees must be paid ~~by January 31st of each calendar year~~ in accordance with an installment payment schedule established annually by the Board of Directors. Failure to do so shall render the member liable to disciplinary action by the Board. When imposed, interest will be at the rate of 1% per month on unpaid balances. ~~will be charged on amounts unpaid as of April 1st of each calendar year.~~ After ~~January 31st,~~ the final date of scheduled payment, members will have none of the privileges of membership until all fees and assessments for that year have been completely paid.	The revised language creates a more "member-friendly" approach to dues collection and allows for installment payments. It is the board's intention for 2025 to allow a two-payment option: $400 by January 31 and the balance by May 31, at which time dues would be delinquent. As our cash flow improves and our technology develops, the new wording allows for expanded payment options and methods.

BALLOT PART 2: LIMITED BOARD AUTHORITY TO RAISE DUES

Adds the following method for dues adoption to Section 3, which defines methods for dues increase: *Article VII Section 3(a)(3). The Board of Directors shall have the authority to enact an annual dues increase not to exceed 2.5% based on the immediately preceding year rounded to the nearest $5 increment. Any proposed increase beyond that amount remains subject to member approval as otherwise provided in this section. (This provision will take effect for fee schedules beginning in 2027)*	The intention of this proposal is to allow for routine inflationary dues increases as required to fund current operations and avoid the need for member votes in a special meeting setting each year. This provision offers two benefits to the membership: (1) It will create a more orderly approach to funding the general operating budget, eliminating unexpected large spikes and (2) retains a strong element of member control. The 2.5% not-to-exceed rate is a generally understood annual inflation benchmark.