Lakewood
PROPERTY OWNERS ASSOCIATION

TRANSPARENCY THROUGH EDUCATION SERIES

Understanding our Annual Dues Strategy:
Why we are operating the LPOA at the Maximum Annual Assessment

Presented by the Lakewood Property Owners Association
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INTRODUCTION TO OUR ANNUAL BUDGET PROCESS

During every year of our 50 year history, we've gone through the Annual Budget Process. The two major decisions we make each year are how much to increase dues from the year before, and then how to prioritize expenses in the following categories:

- Operations
- Recurring maintenance
- New projects
- Reserves
- Debt paydown

During this annual process, while Lakewood residents love our community, many residents are unhappy to find out that along with inflation, dues are being increased again. This is always a difficult announcement for us, because we understand that residents don't always receive personal pay raises with inflation, and it can be hard to understand why the association must do so.

But we are committed to enhanced communication, and we want to take this opportunity to explain our overall financial strategy, and why the dues are being increased each year.

WHAT DOES “MAXIMUM ANNUAL ASSESSMENT” MEAN

In 1972 our original developers wrote our Declarations of Covenants, Conditions and Restrictions (DCCR’s), which are the rules that our association is founded on, that we are bound by legally.

In the DCCR’s, the developers declared that we would need 1.5 times Consumer Price Index (CPI or the rate of inflation) to afford to maintain and improve our community each year, for the entire future of Lakewod. This is because our facilities need to be maintained, but also need to be replaced at the end of their life cycles.

Note: During the last 50 years, the average rate of CPI has been about 3.5% annually.

This formula from the DDCR’s produces a dollar amount each year called the “Maximum Annual Assessment,” not to be confused with the “Actual Annual Assessment,” which is what actually happens that year. To be clear, sometimes those numbers have been different from each other.

The DCCR’s indicate that even though we are not required to increase 1.5 times CPI in a given year, we will not be able to go backwards in future years in order to make up for dues that were left on the table [during a non-increase year]. This approach can be summarized as a “use it or lose it” approach; we either use the increase every year or we lose the right to go backwards and charge extra to make up for missed increases during a given year.

Although we are not *required* to increase at 1.5 times CPI each year, we have found through trial and error over 50 years that there are significant consequences to our existing amenities and services if we do not capitalize on this maximum increase annually.

WHAT IS THE CONNECTION BETWEEN DUES AND OUR FINANCIAL STRATEGY

Since 1973, there have been 21 times when a Board of Directors elected to not raise dues per the allowable 1.5 times the Consumer Price Index (CPI or inflation) year over year increase. The unfortunate impact of these years of zero-increase is that there's been a lack of funding in the long term projects that should have been protected and prepared for.

Looking back at our historical data [please see the attached chart], we can see the large cost of not providing the allowable funds to operate the Association. You can see that these 21 years of no dues resulted in $1,221,628 in lost revenue opportunity. Some may say that that saved the members money that year. The reality is that it did save money in dues for the members who lived in Lakewood that year.

However, the unfortunate impact of that reality is that it is costing the members who currently live in Lakewood more money now, due to principal and interest payments on debt, that we eventually needed to incur in order to handle deferred maintenance of our most important amenities.

The ongoing maintenance and amenities issues must be addressed in perpetuity, and when you can create a strategy to save cash (and gain interest), you gain much more financially than by being forced to take out a loan and paying principal and interest, on top of ongoing recurring expenses.

The Association currently has approximately $2.3 million in debt. It is fairly easy to see that over 50 years, the $1.2 million that was lost, when factored up by inflation, is pretty close to what we now owe in debt.

HOW DO RESERVE FUNDS NOW PLAY A PART IN OUR STRATEGY?

Prior to 2015, after 42 years as an association, we did not have significant reserve funding. But in 2015 we hired an outside firm to conduct a holistic overview of all our ongoing maintenance needs, and they created our first long-term Reserve Study. This drastically informed our future reserve fund strategy.

Since that year, we've devoted every annual budget to maximizing our reserve funding, to make sure that our future is adequately provided for. We continue to update the reserve chart to stay current, as our amenities change. Without being intentional with reserves it would eventually assure large assessments on residents for major projects, and continued debt into the future.

Just as it was in 1973 when the Developers wrote our DCCR's and declared that we would need 1.5 times CPI to maintain and improve our community, it continues to be important in 2023 that we raise the dues to the allowable maximum.

Not only do we need the reserves to maintain existing property, we need them to be able to fully fund the replacement of the properties as they reach the end of their life cycles. This is a key distinction about why increases above the rate of inflation are needed. Without this prescribed revenue stream, we will never finish catching up from the 21 years of "0" dues increase.

In addition to our overall strategy being tightly tied to sufficiently funding our reserves, we have also been budgeting in recent years in order to comply with the requirements of the dues formula interpretation that was established as a result of the 2017 Lawsuit (Davis et al LPOA). The determination by the court indicated that we would need to proceed differently moving forward than we had in years 1973-2017, and we have shifted our dues strategy partially in order to accommodate those needs. The nuances of these different formula interpretations may be described later under a separate document.

WHAT IS THE TANGIBLE IMPACT OF LACK OF RESERVE FUNDING?

Here are some real-life examples of projects that are impacted by adequately reserving funds. During the last 5-10 years, we've lost major amenities like the Bayview Clubhouse, Bayview Pool, the Cove Clubhouse, and various Pocket Parks. When the East Lake Village pool reached the end of its life cycle in 2015, we were forced to incur debt to replace it, rather than leave residents without a primary pool.

This is directly due to the lack of reserves in place at the time that these features reached the end of their life cycle; our association wasn't adequately prepared to rebuild existing structures. Other major examples include the process of periodically desilting coves and ponds in Lakewood, which can be around the $1 million-figure per cove.

Additionally, Lakewood has two dams that were built by our developers in 1973. These are not maintained by the City of Lee's Summit, they are our property. If there were to be a catastrophic problem today, it would be somewhere in the $40 million range to correct a structure of this size (which could lead to an estimated $16,000 one-time assessment per home). Although this is not an immediate threat, these will have a life expectancy of another 30-50 years, and we need to be mindful of these enormous responsibilities as we continue to prepare for Lakewood's future.

These examples are not meant to invoke fear or stress, but it's important to emphasize that after 50 years of management, we have shifted our management mindset to ensure that we are preparing for ALL of our long term commitments, and not just preparing one year at a time.

HOW NEW PROJECTS ARE IMPACTED BY THE SECURITY OF OUR RESERVE FUNDING

Every year during the annual Budget Process, we invite residents to submit budget requests through the Lakewood Improvement Program (LIP Program). Additionally, there are future programs that are very popular that are requested frequently from residents. These include programs like a dog park, "The Beach" renovation and a sidewalk to the Beach. There's also a need for ongoing rotating replacement for all the LPOA sidewalks that lead to the lake.

These requests are due in July of every year. Whatever the request, we document it and place it into the LIP Budget request for the next year. Generally, every year, the LIP requests total up to be between $6 million to $7 million. In a general year, the Association has an LIP budget of $1.3 million to $1.7 million to allocate to those requests.

Then the Facilities Development Committee has to rank these items by importance (along with reserve funding and debt paydown), until we have the funds to prioritize them. The non-essential projects may become an increasing challenge to complete if we aren't able to continue to increase reserves year after year.

WHY DOES IT SEEM LIKE WE AREN'T GETTING MANY NEW PROJECTS ACCOMPLISHED NOW?

The truth is, right now we are not accomplishing many new projects. This is because, through May 2025, we are using the maximum annual assessment in order to conquer two major pieces of our financial strategy: 1) Fully funding our Reserve Funding, and 2) Paying off our $2.3m in debt.

Back in 2015 when we launched the reserve funding, it was at the same time that the East Lake Pool met the end of its life cycle, and we also conducted many pieces of Program 2020, which included video security enhancements, repairing East Lake Marina, and building the Cove Pavilion.

We have been carrying that debt since 2015, and also trying to maximize the reserve funding. The debt interest rate will balloon in May 2025, which means we need to pay off the debt in the next 18 months to avoid even more costs (going from 3.65% up to 8 or 9% interest rate).

Additionally, we need to get our reserve funding maximized, because with our updated dues interpretations from 2017, we are no longer allowed to “go backwards” and increase dues for emergency situations, for years that we missed. We have to be prepared to save in advance, or major projects will simply not happen.

These two objectives (reserves and debt paydown) total almost $800,000 (out of the usual $1.3 - $1.7m estimated LIP Budget). By the time 2026 comes, we will finally be able to feel the positive effects of having achieved both goals.

We will then be able to reallocate LIP funds to catch up on major projects that have been waiting to be completed, including most from the existing list of LIP funding requests. This should be a positive step that will give residents some satisfaction of being able to tangibly see the results of their funding.

At this point , we also hope to be secure with the intention that we can avoid taking any new debt in the future.

ARE WE COMMITTED TO INCREASING AT MAX ASSESSMENT EVERY YEAR?

If there are boards in the future who wish to alter our overall strategy, and reduce the amount of dues, the responsible way to do this will be by actively making decisions about which parts of our amenities, services, and maintenance we would like to commit to removing from our overall culture.

All the financial impacts of our amenities are tightly wound together, so discussions and studies around this would need to be strategic and holistic, understanding every piece of the financial puzzle. It’s possible that altering any major amenities or services from our future would require a community vote, like we held in 2017.

VISION AND STRATEGY PROCESS

Earlier this summer, current President Debbie Stalnaker, and the board of directors, indicated that they would like to pursue a strong Vision and Strategy discovery program during this upcoming year.

This would be to ensure that our community can give their insight into what our future goals should be, and what culture we would like to collectively maintain in the future. This Vision and Strategy process in 2024 may include surveys, additional facilities studies, opportunities for community feedback online and in person, and more. We hope to gain significant insight into how we should proceed financially and culturally.

But the beauty of Lakewood is that we are unlike any other association in the state, and there are only a few nationally that have what we have to offer. We know our history, and our eyes are open to how much is at stake if we aren't able to continue to fund the projects that are important to Lakewood residents. We are using this knowledge wisely to assure a bright future for Lakewood which will protect and enhance your property values. That is our Mission.

Additional Resources:

Nov 2, 2023 Budget Meeting Public Presentation

Nov 2, 2023 Chart of Years of No Dues Increase

Sep 2023 Recurring Timeline of Annual LIP Budget Process

Sep 2019 Reserve Study

Thank you for your time in understanding this complicated matter. We are committed to continuing to provide communication on this important topic. If you have follow up questions, please feel free to direct them to Board President Debbie Stalnaker, at Debbie.Stalnaker@lpoa.com, and we will try to answer your questions in future communications.