



*Newsletter #2, August, 2013*

## The Future of Middle Island and the Role of the Property Owners Association

The Middle Island Property Owners Association Board held an open meeting with property owners at the Middle Island Swim and Racquet Club cabana on Saturday, July 6<sup>th</sup>. The meeting was standing-room only, with some 35 property owners in attendance, including representatives of Young Realty and the Conservancy.

In this newsletter, we summarize the key facts presented and the major issues discussed in the meeting, issue by issue and asset by asset. In addition, we present additional information about the condition of Middle Island assets and the costs associated with those assets that were not available at the time of the July meeting. At the end of the Newsletter, we look at annual expenses for maintenance and reserve set-aside, examine a couple of issues relating to how expenses might be equitably divided among property owners, and provide rough estimates of dues under the most comprehensive scenario. *Please refer to Newsletter #1 for background information on each of these issues. The Newsletter and other useful documents relevant to Middle Island can be found on the Association's web site:* [www.middleislandpoa.com](http://www.middleislandpoa.com)

Middle Island property owners face a key set of decisions that will affect the future of our community. Because a property owners association with the ability to collect assessments in order to maintain common assets and amenities was not established before development of Middle Island, property owners must now decide 1) which, if any, assets to accept from the developer and 2) whether to adopt the North Carolina Planned Community Act (PCA), which would allow the property owners association to collect assessments equitably from all property owners in order

### The Newsletter: Part of a Commitment to Communication and Transparency

Your Middle Island Property Owners' Association Board believes that the key decisions about the future of Middle Island must be made by all the property owners, and that the Board is responsible for conducting a thorough evaluation of any transition proposals made by Young Realty and communicating its evaluation to the property owners. Clearly, increased transparency and improved communication are crucial to that process, and involve several initiatives:

- Open meetings of the Board.
- Regular meetings of property owners to report on our evaluations and to discuss key issues.
- The Middle Island Property Owners Association website, providing a resource for property owners, including key Middle Island documents, reports, maps, and information about the activities of the Board and transition committees: [www.middleislandpoa.com](http://www.middleislandpoa.com)
- This e-mail Newsletter, which will keep you informed about the issues, particularly if you are unable to attend property owners' meetings.

Ultimately, the Board will provide property owners with a final proposal and evaluation in writing, addressing the transition of Middle Island. This final proposal will include not only an evaluation of the final Young Realty proposal, but also a recommendation about whether the current voluntary Property Owners Association should become a true property owners association operating under the North Carolina Planned Communities Act. Property owners will vote on the proposals.

to maintain the roads and other assets. During the meeting, Board members emphasized the linkage between these issues: accepting assets and liabilities without a viable means to maintain the assets and provide liability protection would be irresponsible.

The Board believes that:

- property owners should understand the advantages, disadvantages, and costs of all options associated with each asset, and decide on a course of action and an acceptable level of dues for the association prior to amending the covenants to establish a property owners association like others on Bald Head Island, with the power to collect assessments and maintain our shared assets;
- the role of the Board is to assure that property owners have the information necessary to make informed choices about the proposed transition from developer control and responsibility to property owner control and responsibility.

This Newsletter addresses each of the assets that Young Realty has proposed to transfer, including:

- the current ownership and condition of each asset;
- relevant options to be considered;
- the one-time “up-front” cost that would be borne by Young Realty to improve the asset to a condition suitable for turnover; and
- the historical and predicted future annual operating costs associated with each asset.

Please note that these are preliminary evaluations and approximate costs and are subject to change based on additional information. In addition, we do not yet have quotes for comprehensive property and liability insurance for the Association under different scenarios, although the premium for policies covering the Racquet and Swim Club and the Marina are included in the annual operating costs of the RSC and the Marina.

**We would like to emphasize that neither the Board nor the property owners have yet taken a position on key issues such as controlling access to Middle Island with a gate, rebuilding and maintaining the roads at a particular level, or accepting key assets such as the Racquet and Swim Club and the Marina.** Where possible, we have provided preliminary estimates of the annual expenses associated with each asset.

**At the end of the Newsletter, cost estimates for each of the assets have been gathered together in a “comprehensive scenario” estimating both up-front costs to be borne by Young Realty and annual expenditures to be supported by dues.** The “up-front costs” represent the Board’s careful estimates of the funds that must be secured from Young Realty as part of the transition process in order to bring the assets up to acceptable standards. The annual expenditures include both operating costs and contributions to the reserve funds for major repairs and replacement in the future; these annual expenditure figures give a sense of the relative cost of maintaining different amenities once they are in good condition and allow us to estimate property owner dues in various scenarios.

## Controlled Access to a Private Development: Middle Island as a Gated Community



One specific issue with broad ramifications for the character of Middle Island was discussed: whether Middle Island should become a gated community, either part-time or

full-time. A number of factors in favor of controlled access were discussed, including reducing traffic on the gravel roads (thus decreasing maintenance costs, reducing dust, reducing liability for road accidents, and improving safety), protecting the unique and fragile environment of Middle Island and the Maritime Forest Sanctuary, reducing the incidence of vandalism on Middle Island (particularly at the Marina), reducing the risk of accidents as pedestrians cross the road from the beach access parking area to the gate, and enhancing (perhaps) property values on Middle Island. The point was made that the gate might only need to be operational during the summer and holiday weekends and, with appropriate signage, could be a significant traffic deterrent even while standing open. Questions were raised about the accommodation of emergency, tram, contractor, and real estate traffic. A gate with proximity cards for regular entry, a keypad for temporary access, and a ground loop for detection of heavier vehicles would cost approximately \$20,000. Access control gates were recently installed at the cart parking area on the right as you approach Delphina and the ferry terminal. Further information about operational details and maintenance costs will be developed and presented to property owners. A preliminary estimate for planning purposes is included. While we believe that limiting access to Middle Island, particularly during the summer and holiday weekends, will reduce our road maintenance costs, we have not attempted to put a dollar figure on that reduction.

Up-front cost	Annual maintenance	Annual reserve contribution
\$20,000	\$1,200	\$1,429

## The Roads of Middle Island

Without well-maintained roads, safety, comfort, and property values on Middle Island are at risk. The discussion below addresses the gravel roads, East Beach Drive, and construction traffic in separate sections.



### The Gravel Roads of Middle Island

The current condition of the gravel road was described in the meeting as the worst in many years. In part, this is a result of the heavy rains and the transition from Billy Hewitt, the former caretaker, to WittWorks, which is not experienced in gravel road maintenance. Young Realty has brought a new box scraper to Middle Island and is working with WittWorks to assure better maintenance, including regular scraping and addition of gravel to potholes.

Fred Craig, a Board member and professional engineer with extensive experience in road construction and infrastructure management, described fundamental problems with the road infrastructure that must be addressed. Based on sampling at multiple locations along the road, it appears that the gravel base varies considerably from sample to sample, and in many places, particularly in more recent sections of the road, does not provide an adequate foundation for a maintainable gravel road. Attendees pointed out that long sections of the surface appear to be primarily dirt and sand rather than gravel and raised the question of whether the condition of the road has deteriorated at least in part because of the Village sewer installation process.

Fred's presentation discussed several options. Estimates have been developed for each road segment separately, but are presented here in aggregate for simplicity. The up-front costs could be reduced to some degree by excluding from the improvement select road segments, such as the segment from the Maritime Forest Sanctuary

gate to the Marina. In any event, the final road segment of the road from the first timber bridge to the Marina would have to remain gravel.

- Accept the gravel roads with only basic re-grading.** Because the surface of major sections of the road is composed of “fines” (sand and smaller particles), potholing and dust would remain substantial problems. Indeed, following the most recent re-grading, the roads have again deteriorated rapidly. Basic re-grading, pothole repair, and dust suppression treatment has been the maintenance approach and has not worked well. This approach would not result in roads that are in an acceptable condition for the Association to accept responsibility for maintenance.
- Scarify the gravel roads to a depth of 3”, crown, add binder, and recompact the roads,** mixing the underlying gravel below the surface with the fines currently on the surface to produce a more maintainable surface. This solution depends on an adequate amount of gravel being present in the top several inches of the road. The representative sampling conducted at various locations on the existing road bed suggests that this is not the case. We believe this option also would not result in roads that are in an acceptable condition for the Association to accept responsibility for maintenance.
- Scarify, remove berm from shoulder, add variable depth of gravel (averaging 3-4”), crown the road, add binder, and recompact as appropriate for a resurfaced gravel road.** This option could result in a substantially improved road base and surface, simplifying road maintenance, markedly reducing road deterioration, and reducing the frequency of dust suppression treatments. At least for major sections of the road, rebuilding the gravel roads from the base up is necessary to produce roads that are in a state of good repair and satisfactory for turnover.

Up-front cost	Annual maintenance	Annual reserve contribution
\$330,000	\$35,000	\$10,000

- Scarify, remove berm from shoulder, add 3-4” of gravel to the existing roads to assure a satisfactory road base and surface, then pave the roads. The roads would remain private.** Maintenance is markedly reduced, but the annual reserve contribution is markedly increased. This assumes that there are no CAMA impediments to paving the existing roadway at its current location and elevation; because it is possible and perhaps likely that there will be additional costs to meet CAMA requirements associated with building a paved road, this figure is less certain than previous estimates. This option would not appear to require bulkheads on road sections immediately adjacent to the marsh, and they are not included in the estimate. Maintenance would still be required for the gravel road beyond the first bridge after the Sanctuary. One downside to early paving is that road cuts will be necessary whenever utilities must cross the road to reach a house under construction. These road cuts accelerate deterioration of the pavement at the site of the cut; this deterioration can be reduced but not eliminated by requiring careful reconstruction and repaving of the site.

Up-front cost	Annual maintenance	Annual reserve contribution
\$755,000	\$2,500	\$26,300

- Improve the roadbed to Village standards, pave, and dedicated the roads to the Village. The roads would become public roads and the option of installing a gate would not be available.** We have assumed that the Village would require both the elevation of low segments of the road to 6' MSL and the dedication of a 30' ROW, in which case bulkheads and fill would be required along substantial sections of Cape Creek Road on the marsh side, including the low lying section at the east end of Cape Creek Road, the 20' ROW parallel to Dogwood Ridge Lane, and the segments of the current 20' ROW from before Farm Ridge Circle to the Maritime Forest Sanctuary. CAMA permitting would be required and may require additional steps for drainage and runoff control. It is possible that the Village would waive the 30' ROW requirement for existing 20' sections of the road for environmental reasons, and precedent exists for accepting a 20' ROW, but even that option will require bulkheads and substantial re-engineering along certain sections of the road to meet the Village's 6' MSL requirement, to improve the safety of the roads, and to meet CAMA standards. Maintenance would still be required for the gravel road beyond the first bridge after the Maritime Forest Sanctuary.

Up-front cost	Annual maintenance	Annual reserve contribution
Estimated \$950,000-1,380,000 <sup>1</sup>	\$2,000	\$1,000

#### East Beach Drive

The costs associated with East Beach Drive, resurfaced several years ago with an estimated life before re-surfacing of 15-20 years, were estimated separately. Up-front costs include a reserve contribution toward resurfacing and signage at the entrance regarding our private roads and at the beach access regarding no parking areas

Up-front cost	Annual maintenance	Annual reserve contribution
\$ 14,832	\$500	\$2,283

#### Construction impacts and traffic

The heavy truck traffic associated with home construction is a major contributor to roadway deterioration, regardless of whether the roads are gravel or asphalt. Water and sewer taps require excavations in the road that may increase maintenance and contribute to deterioration of the road. The Village uses a fee on gasoline-powered vehicles to help finance repaving its roads and requires road restoration for any pavement cuts or damage during construction. Assuming that the owner of an unimproved lot pays lower annual dues until beginning home construction, a simple and equitable solution for Middle Island would be to assess a one-time construction road fee on a lot when building a home begins to cover the impact of construction on the roads; the revenue from the assessment would be placed in the road reserve fund. Presumably this fee would only be considered if unimproved lots are charged substantially lower dues than improved lots. Any utility connections requiring a cut in the road for a tap would require full restoration of the road by the utility to a standard that MIPOA would determine.

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<sup>1</sup> Because of this uncertainty regarding the acceptability to the Village of a 20' ROW in environmentally sensitive areas and uncertainty about the amount of bulkheading and re-engineering needed to meet Village and CAMA requirements, there are wide-ranging estimates for the up-front costs of this option.

## The Racquet and Swim Club



Rex Cowdry and Rich Tarplin presented a summary of the Racquet and Swim Club expenses and revenues, and then described possible options.

Closer examination of the condition of the assets over the past month has revealed cracks in the surface of the pool requiring resurfacing and some cracks in the decking. Estimates were obtained for complete resurfacing of the pool surface. In addition, regulations require that the drain grates and skimmer equipment be periodically replaced, and those are nearing replacement. In reviewing expenses from 2009-2011, major expenditures to replace equipment (HVAC compressor), to resurface the pool wall (reportedly only the shallow end, \$15,000 in 2009), and to resurface the pool deck (\$7,200 in 2011) were removed from annual operating expenses, but considered in 1) calculating the up-front cost to resurface the pool in light of the cracks, and 2) developing an annual contribution to a reserve fund based on the estimated useful life of the equipment or surfacing. The largest single operating expense is the cost of pool inspection by a certified individual who is required by state law to test the water daily and clean the pool. Insurance for the pool (\$3,200/yr.) is included in the estimate. The cost of heating the pool (\$3,000/yr. plus annual reserve contribution for the heater) is not included in this estimate. Replacement furniture is needed now or in the near future. The tennis court has developed cracks in spite of a recent resurfacing (\$10,000 in 2009).

The estimate of expenses and revenue presented here assumes that the RSC is operated solely for property owners of Middle Island, providing an exemption from both property taxes and franchise taxes. We have included an up-front cost of \$35,640 to address the current state of the pool and tennis court, to improve access control, and to account for asset depreciation.

Up-front cost	Annual operating costs	Annual reserve contrib.
\$35,640	\$27,410	\$8,220

The RSC has had relatively low membership numbers. Counting only the dues from Middle Island property owners (\$10,800), removing taxes from expenditures, and setting aside a prudent annual reserve for major repairs and replacement, there is a roughly \$24,830 discrepancy between dues revenue and estimated costs including reserve contributions.

We analyzed a number of different options for the RSC:

- Do not accept the property from Young Realty. This option would result in lower Association dues and would allow current dues paying members to continue using the facilities. But there are several potential concerns. The Youngs have made it clear that while they do not want to continue operating the pool, they place a high value on its continued operation. Young Realty could examine ways to keep the RSC in operation by selling it to a third party to market memberships to potential members across Bald Head Island. Private operation of an independent swim and racquet club on Middle Island would make it substantially more difficult to control access to and traffic on the roads of Middle Island. The use of the Middle Island roads by RSC members result in some increased liability exposure. This option may also prevent the use of the RSC parking lots for overflow parking for the beach access. An agreement by Young



Realty to limit future use of the club facilities to existing recreational purposes, with agreed upon membership limits for non-Middle Island residents, could significantly obviate these concerns.

- Accept the property, provide a subsidy from the association, and increase dues for RSC members to cover all the remaining expenditures. We assumed that having the RSC as an amenity available primarily or exclusively to Middle Island property owners would have a value even for property owners who do not currently use the pool. In addition, the “Adjacent Property Tract” associated with the RSC includes a gravel parking lot at the junction of East Beach Drive and Cape Creek that is absolutely essential to provide overflow parking for the Middle Island private beach access boardwalk, providing additional justification for some degree of operational subsidy from general dues. However, even with a \$6000 subsidy from the Association, the dues for RSC members would more than double to over \$2300 per year, assuming that membership numbers are unchanged. We concluded that this option is not feasible.
- Accept the property as an asset of the Association, open access to all Middle Island property owners, and include its expenses in the Association dues. This approach is common for Associations with community pools. We anticipate that pool use by Middle Island property owners would increase. The average cost per lot would be approximately \$330 – higher for improved lots and lower for unimproved lots, depending on the improved/unimproved dues ratio adopted. This approach would not necessarily preclude charging higher dues for certain types of memberships, such as grandfathered memberships for families who are not current Middle Island homeowners or temporary memberships for renters.
- The Board also has considered privatization options for the RSC parcel and Adjacent Property Tract should the continuing operation of the RSC prove to be infeasible. We note that Young Realty has stated that it wants the property to revert to Young Realty or the current corporate entity holding the property, should the property cease to be used as a Racquet and Swim Club. Assuming there is no reversion provision in any eventual asset transfer agreement, we have done a preliminary analysis of height restrictions, easements, and required lot sizes and set-backs. Merging the RSC lot with the Adjacent Property Tract (retaining the southern-most section for beach access overflow parking), removing the height restriction on the Adjacent Property Tract (the height restriction on the pool lot cannot be removed), and removing the easements for the road and the septic field on the Adjacent Property Tract could yield a buildable lot for a private residence with swimming pool and tennis court already constructed.

### The Gravel Parking Lot

Under any scenario, the POA will need to hold title to the gravel parking lot to provide overflow parking for the beach access, whether the RSC is retained by young Realty, deeded to the new entity, or deeded to the POA.

### **The Middle Island Marina**



The current condition of the dock and boat ramp at the Marina has been evaluated. While the dock construction is not ideal and the resulting dock not as stable as it might be, it is generally in satisfactory condition for a 30 year old dock and floating pier, with the exception of the ramp lacking handrails. The boat launching pavement pad needs major repairs or replacement because routine use coupled with the brisk Cape Creek tidal current has caused concrete sections of the ramp to separate.

The operating budget for the Marina can be estimated with some accuracy, but the current annual reserve fund set-aside is at best a rough estimate that needs to be refined. Operating costs are roughly \$5,660 for utilities, insurance, and routine maintenance/repair. Although the Marina currently pays \$8700 in property taxes based on the property being assessed as a building lot, our operating cost estimates going forward assume that the Marina will either be treated as a common association asset and thus exempt from property taxes or will be assessed at a lower rate because the property will be restricted to recreational use. We have included \$4000 in the budget. Our estimate of the annual reserve contribution for anticipated and unanticipated major repair and/or replacement is \$6,233. In summary:

Up-front cost	Annual maintenance	Annual reserve contrib.
\$87,000	\$9,660	\$6,233

Note that historically, Middle Island Marina, Inc. has self-insured against damage to the docks. Property insurance for the docks would probably be available, but is likely to cost \$5,000 or more. At this point it is not clear what hazards (such as hurricanes) would be excluded from this coverage. At this point, we have assumed self-insurance against property damage, with accumulation of a reserve through annual contributions, and no commitment by the Association to fund replacement costs beyond the accumulated reserve fund.

The impact on POA dues will depend on how the costs of the Marina property are allocated. As with the RSC, we assume that access to the Marina for the vistas, for fishing, and for other recreational purposes has some value that is properly borne by general dues, but that most of the cost of maintaining and replacing the Marina docks and the launching ramp should be borne by the property owners who launch and/or dock boats. The tiered dues structure would help ration a scarce amenity while supporting the general recreational use of the property and building a capital fund to handle catastrophic events leading to dock damage.

Since the Conservancy will make use of the Marina property (and the roads), some consideration should be given to the legal and practical feasibility of the Conservancy making a contribution toward the reserve fund, or alternatively, being a member of the POA by virtue of its ownership of Middle Island property.

Expansion of the Marina facilities. Board members have received a number of inquiries from Middle Island property owners considering docking a boat at the Marina. The current Marina docks accommodate only 6 boats. It is our understanding, but we have not confirmed, that one additional dock extension could be added to the current Marina. In addition, as previously noted, the reserved triangle of land at Land’s End was previously discussed as a parcel that would be transferred but is not presently part of the Young Realty offer because of limited parking and possible impact on the Land’s End building lot. While expansion of the dockage to another site is not likely to be needed for some time, the Land’s End parcel may be an important amenity for the long-term needs of property owners, as it is the only feasible location for additional dockage.

## The Creek Docks

There are two docks located on Bald Head Creek. The first, fixed dock requires repair of its rail and planking. The floating dock further west has significant problems. The ramp has shifted on the dock, and the railing has been torn loose by rubbing against the piling. The floatation blocks were apparently not well attached to the dock;

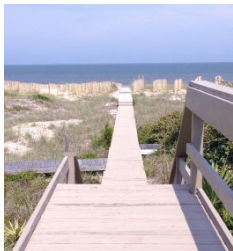


several blocks have shifted, one to such a degree that the SW corner of the dock has sunk markedly, twisting the dock structure. The current floatation appears to be Styrofoam blocks wrapped in waterproof material, which we believe should be replaced with a more durable and secure floatation system.

The operating costs below reflect minimal annual maintenance, and a reserve fund contribution for major repairs to or replacement of docks or bulkheads. Consideration should be given to how commercial use of the docks for canoe/kayak tours should be handled, and whether it is legally and practically feasible to require a contribution to the reserve fund.

Up-front cost	Annual maintenance	Annual reserve contrib.
\$ 39,500	\$1,500	\$3,667

### The Middle Island Beach Access



Young Realty recently improved the security of the beach access gate by improving the gate frame, installing a stainless steel spring, and installing keyed doorknobs on both sides of the gate. The boardwalk itself is approximately half way through its useful life, and the current walkway over the primary dune is partially buried in sand, requiring beachgoers to walk on the sand of the primary dune. By Village standard and Middle Island covenant, walkways over the dunes are supposed to be built 12-24" above the sand to allow normal shifting and accumulation of sand and to remove the effects of foot traffic on the dune surface. The up-front cost below encompasses both the cost of rebuilding the beach access over the primary dune, the cost of expanding and improving both the East Beach parking area and the gravel overflow parking lot for the beach access south of the tennis court, creating an entrance to the gravel lot from Cape Creek Road, installation of signage, and a reserve contribution reflecting the current state of the walkway boards. The annual operating cost reflects historical cost of replacing the walkway and stairs at the primary dune, required when hurricanes or winter nor'easters cause damage to the ocean end of the access walkway, periodic treatment of the walkway with sealant, secondary dune stabilization, storm cleanup costs, and maintenance of the boardwalk, gate, and parking areas. The annual reserve contribution reflects planning for the full cost of eventual replacement of the walkway boards at the end of their useful life. If only one limited beach stair replacement is needed, or if none is required, the budgeted amount would be added to the reserve for replacement of the access gate and walkway.

Up-front cost	Annual maintenance	Annual reserve contrib.
\$67,230	\$15,350	\$1,520

### Other Infrastructure

Young Realty has also proposed transferring other assets such as the tractor, the lease to the Middle Island storage garage, the boathouse at the Marina (which would be leased back to the Young family for a minimal annual fee), a triangle of land at the entrance to Middle Island for a possible access gate, Reserved Area #4 at the end of Land's End Road, and Reserved Area #5 at the entrance to the Sanctuary. The condition of these assets is generally satisfactory. The reserve fund provides for equipment replacement.

Several attendees at the meeting commented on the need for regular maintenance of the forest right-of-way, including mowing and pruning of branches. Garbage service was recently discontinued temporarily by Waste Management because the trucks could not pass along Cape Creek and Dogwood Ridge Roads without scraping, so a comprehensive trimming of the gravel road ROW and canopy to allow the passage of trucks is included in the up-front cost. We will be considering the options and costs for providing this and other general maintenance services for the common lands of Middle Island. At this point we have estimated the costs at \$10,000 over and above the cost of maintenance services already included above (such as road grading and pool inspection).

Up-front cost	Annual maintenance	Annual reserve contrib.
\$ 15,000	\$ 10,000	\$ 2,500

**Administrative and legal**

We anticipate up-front legal costs associated with advising the Board and the Association membership, drafting and/or evaluating the final agreement with Young Realty, amending and restating the covenants, and restructuring the POA By-laws. Actual expenditures may vary depending on unforeseen circumstances and the course of negotiations. We have included \$20,000 in up-front costs, because we believe these actions are properly paid for by Young Realty as the developer in a planned community.

Operating expenses include, among other items, \$6000 for a part-time manager (who will handle oversight of contracted services, general maintenance, and distribution of proximity cards and temporary access codes if a gate is in operation full-time or part-time), \$2300 for accounting expenses, \$3000 for legal expenses, and an allowance for uncollected dues.

The budget also reflects premiums for insurance coverage not already accounted for in the insurance budget for the RSC (\$4,280) or the Marina (\$1,000 with self-insurance against property loss). The insurance coverage for the Association would include property and casualty for structures other than the docks, general liability, an umbrella policy to increase the liability coverage limits, and acts and omissions coverage for your Board. Given our proposed ownership and maintenance of the roads, liability coverage for the roads is particularly essential. However, these figures do not insure assets against flood. The annual expenditure amount below includes an estimate of the additional cost of insurance (\$7,000) beyond the insurance coverage for the RSC and Marina already included in other estimates. We continue to research the cost of adequate liability coverage to protect the Association, based on various asset ownership scenarios and whether or not we are a gated community, and we continue to assess which assets should carry property and casualty insurance. When that information is available, we will revise the estimates below and those included under the Marina and RSC.

Up-front cost	Annual expenditure	Annual reserve contrib.
\$20,000	\$23,420	\$0

## Budget Summary and Questions about the Dues Structure

We believe a modest reserve fund is important to address catastrophic events before the Association has built up its own capital reserve, and have included \$150,000 in the up-front costs. The amounts associated with the asset categories above total:

	Up-front cost	Annual expenditure	Annual reserve contrib.
All assets	\$779,202	\$124,040	\$35,852
Assets without RSC	\$743,562	\$96,630	\$27,632

However, there are important considerations in crafting a dues structure that is seen as equitable and that delivers fair value. For example, while the vital road infrastructure and the association amenities provide value to all lot owners, they provide more current value to owners of improved lots. In addition, most of the road expenditures are related to upkeep of the gravel roads and specifically benefit owners of lots abutting a gravel road, for whom good gravel roads are essential to everyday lot access and to maintaining the value of the lot. The value of East Beach lots is not greatly affected by the condition of the forest roads. Most of the Marina expenditures relate to maintenance and replacement of the boat docks and boat launching ramp, and might be appropriately borne by those docking or launching boats.

- Because of these considerations, we are looking at a number of dues structures that allocate costs differently for certain assets, matching dues more closely to benefits received while still emphasizing that we are all part of one development. While there are several variations to these dues structures, it seems equitable at a minimum that dues for improved lots should be more than unimproved lots, gravel road maintenance costs should higher for those who use them frequently to access their lots, and marina expenses should be borne primarily by those who utilize those facilities.

**With the appropriate caveats about the preliminary nature of our budget, and assuming Young Realty agrees to bear the upfront costs that we've estimated,** dues for current improved lots would range from about \$1500 to about \$2180, and dues for unimproved lots would range from about \$750 to about \$1090. If the RSC were not included in the Association amenities, the dues would be approximately \$1050 to \$1720 improved, and \$525 to \$860 unimproved.

The Board believes annual MIPOA budgets should be subject to careful scrutiny to ensure efficient and prudent use of property owner funds. We intend for any vote to adopt the PCA to include reasonable and equitable limits on future dues increases or assessments, with significant input from the property owners. And we have included significant reserve funds in our initial budget estimates to help prepare for predictable and emergent needs.

## Assessments/Dues for Other POAs on Bald Head Island

Attendees at the meeting asked what the annual dues were for other POAs on Bald Head Island. The Bald Head Association published a summary of 2011 POA dues that lists the dues for each POA together with a description of the kind of assets owned by and expenses borne by the POA (available on the MIPOA website at [www.middleislandpoa.com](http://www.middleislandpoa.com)). There is no directly comparable POA, but the following serve as comparisons:

- The lowest POA annual dues were \$1,029 (\$830 unimproved) for a development with a small creek dock and landscaping (Harbor Village).
- Flora's Bluff and Killegray Ridge residents pay \$1800 a year for beach access, boardwalks, paved roads, and landscaping.
- Keeper's Landing homeowners pay \$2886 a year for maintenance, tree trimming, entry, boardwalk, dock, and pier, irrigation and insurance.
- Multiple homeowners' associations have dues between \$2000 and \$3500, usually with many fewer amenities, but with some responsibility for exterior painting and maintenance. Excluding what might be regarded as home costs, the dues for Ibis Roost are \$2156 and for Lighthouse Landing are \$2005.
- Royal James (\$5700) and Timbercreek (\$11,000-13,000) include roof and exterior maintenance and replacement; Timbercreek also includes pool maintenance, landscaping, and limited flood insurance.

## Your Participation

Your Property Owners Association Board is committed to a full, careful, and transparent evaluation of options at this critical juncture in the development of Middle Island, and to the principle that decisions about Middle Island infrastructure and amenities and the role of the Property Owners Association will be made with full input of the property owners of this very special place.

We welcome your participation. If there are particular issues that interest you, please contact any member of the Board.

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