

**The Marsh Ridge HOA Members met for the Annual Meeting on Sunday, Sept. 17, 2023 at 4:00 pm, in the Senior Center at Delano City Hall.**

Board members Jon H, Zelda M, John B, and Liz F were present. 37 Owners were present, and eight proxy forms were turned in.

(A post-meeting audit of proxy forms revealed only five valid proxy forms with named Proxy were turned in, for a voter total of 42 – one shy of necessary quorum. Three proxy forms were invalid for failure to fill in a proxy name.)

The meeting was called to order, and the members were directed to reverse side of agenda for a message to members on status of reserve transfers (message attached as Appendix I to these minutes).

Year-to-Date August 31, 2023 accrual basis financial statements handed out to members were explained in comparison to cash basis statements given out in prior years. Accrual statements include significant dollar amounts not shown on cash basis statements, in particular accrual of reserve dollars not transferred to reserve bank accounts in 2023, but instead recorded as an outstanding obligation.

Discussion ensued regarding the negative effect on available cash due to 70% increase in property insurance premiums. (Monthly deposits to reserves were discontinued early in 2023 after \$100,000 was moved from reserve savings to CD's and cash flow reports were included in the Board's review of financial statements. Although the initial concern was liquidity of reserve funds, as the year progressed sufficient cash for operations took over as the primary concern.)

One owner asked about the Board's plans for \$100,000 in reserve funds currently held in CDs at MN Lakes Bank. Board indicated it is premature to make a specific decision in the present moment (maturity date for these CD's is not until August 2024).

Multiple owners suggested the Association should contract for a CPA to perform an audit of the financial statements and a motion was made to do so. Other owners immediately spoke up that a CPA audit had been considered in the past but not undertaken because the cost was prohibitive. Suggestion was made to instead adjust the motion to obtain bids for a CPA audit. Motion to obtain three bids for CPA audit was made and seconded. A voice vote was taken with 38 voting in favor, and 7 against. Three proxy votes were later discounted as noted above, for a final tally of 35 / 7 / 3. Due to the significant support for the motion, the Board will obtain three bids as requested.

**OLD BUSINESS**

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Insurance: Twin Home Property Coverage and General HOA Liability Coverage & HO-6 Coverage

Final Premium for Policy Year 10/1/2023 to 10/1/2024 is as follows...

|                      |           |                |          |                  |
|----------------------|-----------|----------------|----------|------------------|
| Twinhome Property    | \$ 48,513 | Fidelity/Crime | \$ 879   |                  |
| Directors & Officers | \$ 893    | Umbrella       | \$ 1,506 |                  |
| Workers Comp         | \$ 302    | Cyber Policy   | \$ 395   | Total: \$ 52,488 |

Twinhome property coverage increased by 70% over last year and HOA general liability increased by 13.5%. A significant change in the property coverage is an increase from 2% to 5% of building insured value for the peril-specific deductible applicable to wind/hail coverage. This deductible is in addition to the per occurrence deductible of \$10,000. Building Insured Values increased by 10%.

In prior years the wind/hail possible assessable deductible was expressed as an average building value. With the increase to 5% of building insured value, each homeowner will be mailed their possible assessable deductibles so they can update their HO-6 policy accordingly.

Both the Association and the Association's Broker reached out to other carriers for bids. However, due to excessive claims and dollars paid out for claims for hail damage in Minnesota in recent years, fewer carriers continue to offer property coverage to homeowner associations or have switched to other restrictions such as number of buildings they will cover.

#### Review of Cash Outlay Required to Cover Operations Expenses

2023 Cash Flow Projection through 12/31/2023 was provided to members to illustrate cash required to cover top four monthly payouts; variable monthly payouts; and administrative payouts. Based on past years payments, initially there was concern new insurance premium payments might use up available cash to the detriment of covering other expenses. Fortunately Hartford, recognizing the cash flow burden premium increases were causing, restructured a payment plan to flatten out property coverage payments over 11 months instead of front loading the first four months.

Despite the new insurance payment plan, insufficient cash flow is still limiting the Association's ability to pay for expenses over and above the top four: insurance, groundskeeping monthly contract, DMU electric & water, and trash removal. In particular, additional payments for groundskeeping and irrigation work not covered by the contract will be dependent on what cash might be available through 12/31/2023 and into 2024.

#### Groundskeeping and Handyman Updates

In June the irrigation system required replacement of a backflow preventer and one control module at a cost of \$3,845. In July an array of sprinkler heads and related parts were replaced at a cost of \$3,522.

Items covered by the Jenco contract were read aloud to the attendees. Mixed opinions were voiced on the performance of Jenco, with some remarks very positive on their services, and others more critical. An issue of concern to the Association is the cost of extra services not covered by the contract and the negative effect they can have on cash flow projections in view of the current cash constraints. Going forward, non-contract services will of necessity require more communication and coordination between Jenco and the Association, including a delineation between work classified as operations expense and work classified as capital expenditure, for purposes of cash flow planning.

Various homeowners related their individual concerns or disappointments with groundskeeping. The Board will continue to log and list homeowner requests/comments for use in planning future work lists.

As of the meeting date, no updates were available on summer handyman work. Other possible repair and maintenance vendors are being added to a list as they are discovered or passed on by homeowners. Attempts will be made to contact them and utilize their services if appropriate.

(Two days after meeting, an invoice totaling \$ 7,134.46 was received by email for summer handyman work completed. The Board will be reviewing the invoice.)

## **NEW BUSINESS**

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#### 2024 Budget, Cash Flow Projections, and Project Planning

Members were also given two scenarios for the 2024 Budget, one with no dues increase, the other with a 10% twinhome dues increase. Both scenarios include a 30% transfer to reserves; deductions for the top four monthly expenses estimated at 2024 levels; and the remaining cash available to fund all other operations expenses. (A copy of the 2024 Budget sheet is included on Appendix II.)

If dues are kept at current amounts, the Association will experience a cash shortage to pay for any operating expenses over and above the top four, including but not limited to TH repair & maintenance; administrative expenses; or any unplanned repair, maintenance, or groundskeeping services such as salting and roof-raking in winter or plantings work and irrigation repairs in summer.

No motion was made or vote taken to increase dues. But scenario two illustrates that a 10% increase in twinhome dues will alleviate, but not fully eliminate, pressures on operations cash flow for 2024. Although the Board has the discretion to increase dues by 10% without a membership vote, it will not take such action before year end.

#### Declaration Update, Reserve Study, 70%/30% dues allocation split between Operations and Reserves

Scrutiny of the Association's current governing documents and original reserve plan highlight their inadequacy to address and guide a forward-looking response to the Association's current financial downturn. Updating and modernizing both the governing documents and the reserve plan might be an expensive undertaking. The Board will need to obtain cost estimates on both before making any decisions on how to proceed.

The allocation of dues collected with 70% going to operations and 30% to reserves is not an explicit percentage written into the governing documents. It is an estimate based on the original 2004 multi-decade reserves worksheet. A new Reserve Study will be explicit on the components and upkeep responsibility for those components. But it will take its information on same from the governing documents, which will first have to be updated to be more explicit on the exact components and upkeep responsibility for those components. The upkeep of any designated components not explicitly covered by reserves is an operations expense.

#### Board Member Positions

With the resignation of Joe Konicek on June 1<sup>st</sup>, the Treasurer position has been vacant and temporarily covered by other Board members. Two homeowners indicated interest in joining the Board. Due to some uncertainty on Board Member make-up and terms, no vote was taken at the meeting. (Information on a by-mail, paper ballot vote for new Board members will be included in the September newsletter.)

### **MISCELLANEOUS**

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A resident suggested the Association hold a second membership meeting each year. An additional meeting held in April or May would be more amenable to providing members with required annual reports following the 12/31 fiscal year end, plus beneficial for planning the summer season ahead.

Members were asked if they would prefer automated dues payment by ACH transfer. By show of hands, the response was predominantly in favor of ACH transfer. The Board will move forward on activating this payment option.

Members were reminded to observe the rules, regulations, and responsibilities of Pet Ownership. Owners are expected to prevent their pet from running loose or leaving a mess in someone else's yard.

Meeting was adjourned.

Time & Place of next Board meeting to be advised.

## APPENDIX I

### Message to Members

Late last year, this Board had the foresight to stop making monthly deposits to Reserves that restrict use of 30% of monthly dollars collected. That decision was based on the following realities:

1. a year to year, month to month analysis of HOA cash flow that included dollar transfers between the checking account and the reserve savings account in both directions.
2. paying attention to news and industry articles that were forewarning of significant premium increases in property coverage for the residential market; plus other economic pressures.
3. acute understanding that once cash is deposited to a reserve account, under MN State law it is untouchable for operations expenses.
4. a widening schism in the membership over raising dues to cover the Association's obligations for both operations and reserves.

This decision has proven to be prescient now that HOA monthly property insurance premium payments will almost double – from \$2,400 to \$4,500 of available cash each month.

This Board also started running accrual basis accounting in conjunction with its long-standing reliance on cash basis bookkeeping so we could record and track, not ignore or forget, the outstanding 30% obligation to Reserves.

At this point it is important to understand that a 70% operations / 30% reserves dues allocation is not written into the HOA's governing documents. It appears instead to originate in a decision made back in the early years of the association and was based on a multi-decade plan for the replacement or updating of certain specified twinhome and grounds components – but not the irrigation system.

Under MN State law, reserves are not a source of funds to pay for just any large or unexpected expense that comes along. An association needs to budget for and fund more than minimum expected operating expenses. An operations savings account would be an important hedge against unexpected cash-eating overhead like this insurance premium.

Going forward, flexible, adaptive, innovative – even creative – approaches to fiscal planning and management can get MRHOA over what we hope will be a relatively short-term hump. But it won't be pain free.

This Board asks for your patience while we explore and research a diversity of remedies.

**APPENDIX II**

## 2024 Budget &amp; Cash Flow

| 2004 Budget / Cash Flow               | QTR 1          | QTR 2          | QTR 3         | QTR 4          |
|---------------------------------------|----------------|----------------|---------------|----------------|
| <b>TH Dues 300*3*50/qtr (Current)</b> | 45,000         | 45,000         | 45,000        | 45,000         |
| SF Dues 88*3*15                       | 3,960          | 3,960          | 3,960         | 3,960          |
| Less 30% to Reserves/Cap Exp          | (14,688)       | (14,688)       | (14,688)      | (14,688)       |
| <b>CASH AVAILABLE</b>                 | <b>34,272</b>  | <b>34,272</b>  | <b>34,272</b> | <b>34,272</b>  |
| <u>4 Major Monthly Expenses:</u>      |                |                |               |                |
| Jenco Contract (3588 + 5.0%)          | 11,302         | 11,302         | 11,302        | 11,302         |
| DMU Budget Billing (30k/12)           | 7,500          | 7,500          | 7,500         | 7,500          |
| Republic Trash (1142 + 3.2%)          | 3,536          | 3,536          | 3,536         | 3,536          |
| Property Insurance                    | 13,053         | 13,053         | 8,702         |                |
| Property Insurance (2025 Est)         |                |                |               | 15,170         |
|                                       | <b>35,391</b>  | <b>35,391</b>  | <b>31,040</b> | <b>37,508</b>  |
| <b>Remaining Cash for quarter</b>     | <b>(1,119)</b> | <b>(1,119)</b> | <b>3,232</b>  | <b>(3,236)</b> |
|                                       |                |                |               |                |
|                                       |                |                |               |                |
| 2004 Budget / Cash Flow               | QTR 1          | QTR 2          | QTR 3         | QTR 4          |
| <b>TH Dues 330*3*50/qtr (+10%)</b>    | 49,500         | 49,500         | 49,500        | 49,500         |
| SF Dues 88*3*15                       | 3,960          | 3,960          | 3,960         | 3,960          |
| Less 30% to Reserves/Cap Exp          | (16,038)       | (16,038)       | (16,038)      | (16,038)       |
| <b>CASH AVAILABLE</b>                 | <b>37,422</b>  | <b>37,422</b>  | <b>37,422</b> | <b>37,422</b>  |
| <u>4 Major Monthly Expenses:</u>      |                |                |               |                |
| Jenco Contract (3588 + 5.0%)          | 11,302         | 11,302         | 11,302        | 11,302         |
| DMU Budget Billing (30k/12)           | 7,500          | 7,500          | 7,500         | 7,500          |
| Republic Trash (1142 + 3.2%)          | 3,536          | 3,536          | 3,536         | 3,536          |
| Property Insurance                    | 13,053         | 13,053         | 8,702         |                |
| Property Insurance (2025 Est)         |                |                |               | 15,170         |
|                                       | <b>35,391</b>  | <b>35,391</b>  | <b>31,040</b> | <b>37,508</b>  |
| <b>Remaining Cash for quarter</b>     | <b>2,031</b>   | <b>2,031</b>   | <b>6,382</b>  | <b>(86)</b>    |