



**SEVEN LAKES LANDOWNERS ASSOCIATION, INC.**

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**SEVEN LAKES LANDOWNERS ASSOCIATION LONG RANGE PLAN**

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The mission statement for the Long Range Planning Committee is to develop a strategy that will provide for the orderly maintenance and expansion of our community while maintaining the quality of life we have come to expect.

In order to build a long range plan it is important to understand the growth in Seven Lakes from 1987 to 2006. The first set of data is the growth in population.

At the end of FY1987 we had a total population of 1476 (1287 adults and 189 children). At the end of FY2006 we had a total population of 2783 (2212 adults and 571 children). This represents an increase of 1307 people or 88.5%. The increase in our adult population was 925 or 71.8%. The increase in our children population was 382 or 302%. Clearly the demographics of our community is changing dramatically. We expect this trend will continue.

The number of houses has experienced a corresponding increase. At the end of FY1987 we had a total of 774 houses. At the end of FY2006 we had a total of 1166 houses. This represents an increase of 392 houses or 50.6%.

These numbers also confirm the changing demographics. The total population has increase by 88.5% while the number of houses has only increased by 50.6%.

Revenues have increased at a faster rate than either the increase in the population (88.5%) or the number of houses (50.6%). In 1987 the total Seven Lakes Landowners Association revenue was \$581,610. In 2006 the total revenue was \$1,191,900. This represents an increase of \$610,290 or 204.9%.

We cannot expect the revenues to continue to increase because of several reasons. The total number of remaining buildable lots is estimated at 200. The rate of new construction has been fairly constant at 20 houses per year. Therefore the increase in our income will not be nearly as dramatic because of the dwindling supply of buildable lots and the small number of units being built. Because of the changing demographics with younger working families and retirees living on a fixed income future increases in dues will not be an automatic assumption.

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The summary of this information is shown in the following table.

<u>YEAR</u>	<u>ADULTS</u>	<u>CHILDREN</u>	<u>TOTAL</u>	<u>HOUSES</u>	<u>REVENUES</u>
1987	1287	189	1476	774	\$581,610
2006	2212	571	2783	1166	\$1,191,900

The history of the Seven Lakes Landowners Association budget shows that \$100,000 per year has been allocated to capital expenses. Typically this has been enough to maintain our infrastructure. Now that Seven Lakes is 30 years old and maintenance costs have increased faster than revenues we need to devote more of our budget to capital expenses or savings for anticipated capital expenses, for example repaving our roads.

The Seven Lakes Landowners Association is in sound financial condition. We have no long term debt. Current income for FY08 is sufficient to cover our operating costs, capital expenses and help to replenish our year end cash reserves. Our year end cash reserves for FY07 are estimated to be \$256,000. These reserves were adversely affected by a State mandated repair to Echo Dam. The total cost for this repair was \$241,000.

The Seven Lakes Landowners Association has operated on the basis that our year end cash reserves will only increase if our total expenses, including capital expenses, is less than the total income. To insure that the Seven Lakes Landowners Association will increase its year end cash reserves then we should mandate a specific percentage, 5% for example, as a line item in each year's budget dedicated to increasing our reserves. Our anticipated income for FY08 is \$1,227,750, then 5% would represent annual savings of \$61,387, rounded up to \$62,000.

The second thing we should adopt is a Zero Based Budget (ZBD) for our expenses (excluding capital expenses). We must control our costs. Every reduction in our costs is the same as an increase in our revenues. The estimated expenses (excluding capital expenses) for FY07 is \$965,000. The budget estimate for these expenses is \$1,027,000 and therefore we will be \$62,000 under budget.

It will not always be possible to maintain a Zero Based Budget because of inflation and the limited number of expenses we can reduce therefore at some point within the next 2 to 4 years we will need a dues increase.

The current proposed expense budget (excluding capital expenses) for FY08 is \$994,726. We are looking at additional cuts, without reducing services of between \$30,000 and \$35,000. I am optimistic that our proposed expense budget will be equal to or less than our actual expenses of \$965,000 for FY07. After including the mandated savings of \$62,000 then our final proposed expense budget for FY08 will be \$1,027,000.

The reason why I have excluded capital expenses from our expense budget is that we review what needs we have and budget accordingly. This year our capital budget includes \$50,000 for road repaving, \$40,000 for pool repairs, \$15,000 for a software update and \$5,000 for the stables, or a total of \$110,000.

There are several cost savings items that were implemented in FY06 that have produced a permanent reduction in our expenses. These items are as follows:

Disband Company Police Department:	\$90,000
Outsource Gate Guards:	\$25,000
Health Insurance co-pays:	<u>\$35,000</u>

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Total Annual Savings: \$150,000

There was also a one time savings in capital expenses of \$25,000 because we did not purchase a second police car.

Our treasurer Steve Hudson and I have reviewed every line item in our budget for FY08 and will recommend that future board's follow the same practice. We need to justify all of our expenses.

There are several items that we can implement in the coming years to help reduce costs:

- 1) Use part time employees where possible to eliminate fringe benefits such as health insurance.
- 2) Currently our employees are paying 20% of the health insurance premium. This represents an annual savings estimated at \$35,000. The State of North Carolina requires that an employer pays a minimum of 50% of the health care premium for each employee enrolled in the plan. At our budget meeting of February 8, 2007, 4:00 PM in the North Club House and open to the public a recommendation will be made that we increase the employee's share of the health care premium by 5% per year for the next six years to achieve a 50/50 split between employer and employee.
- 3) Outsource where possible. For example we have outsourced our gate guards to Security Forces Inc. The initial savings is estimated at \$25,000. The other benefit with outsourcing is we have transferred any potential liability to the vendor.
- 4) We implemented a rule concerning capital expenses. This rule states that written justification must exist, we must obtain three written bids, where possible and the threshold is any capital expense exceeding \$5,000 before the board can approve the expenditure.

We are also checking our current fee schedule. There are many fees that have not been changed in 20 years, for example the post office box rental is \$6.00, per year. In total there are 47 different fees. Each line item should be checked to see if an increase is warranted. The increase in fees could be used to service long term debt (if required) to repave our roads.

The big nut we have to crack is the repaving of our roads. We have 26 miles of roads (16 miles on the North Side and 10 miles on the South Side). We have 12.4 miles of main roads as shown in the following table.

<u>STREET</u>	<u>MILES</u>
Devonshire	2.9
Lancashire	0.5
Harwich	0.9
Hastings	<u>0.8</u>
South Total	5.1
Shenandoah	1.3
Edgewater	0.9
Firetree	3.2
Cardinal	<u>1.9</u>
North Total	7.3
Mileage Total	12.4
Cost per mile	<u>\$70,000</u>
Dollar Total	\$868,000

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The remaining 13.6 miles of roads are cul-de-sacs and lightly traveled roads where repaving is not an immediate concern or requirement.

We currently have \$256,000 in year end cash reserves of which \$125,000 is dedicated to repaving our roads. We expect to generate \$62,000 annually in savings (5% of our income) and we expect to produce an estimated operating surplus (in addition to the \$62,000) of approximately \$90,000 per year as shown below.

\$1,227,750	Income
-\$965,000	Operating Expenses
-\$62,000	Mandated Savings
<u>-\$110,000</u>	Capital Budget
\$90,750	Estimated Surplus

This is equal to savings of \$152,750 for FY08.

In three years we will have saved approximately \$450,000 plus the original \$125,000 (\$575,000 total) dedicated to road repaving versus a current anticipated cost of \$868,000. We can borrow the remaining amount of \$318,000 and repave our 12.4 miles of main roads. The principal and interest can be paid down by the \$50,000 we add annually to our budget for road repaving.

I firmly believe that with prudent management of our expenses we can maintain our infrastructure without requiring extensive dues increases.

Donald P. Truesdell, President  
Seven Lakes Landowners Association