

Presidents' Meeting Presentation

FEBRUARY 15, 2024

Welcome. My name is Larry Ferguson, President of the LBTS Community Association. On behalf of the Board, we're glad you are attending this meeting. This meeting will bring you up to speed on our strategic evaluation of LBTS, what we have learned, actions we've taken, and actions planned for the coming year.

Over the past 18 months, your Board has evaluated how we operate LBTS and compared LBTS to peer committees along the South Carolina coast. We have enlisted domain specific experts in all aspects, pertaining to day-to-day and strategic management for LBTS.

We have also utilized internal expertise of several board members, who have corporate business experience at the "C-suite" executive level, to build a plan for the future. Tonight, we will share the plan in an interactive forum.

Please feel free to ask questions or make comments at any point. Remember, the LBTS board members belong to the same HOAs as you, pay the same LBTS dues as you, and experience the same joys and frustrations as you do at LBTS. "We're in this together." We aspire to have an intentional focus on LBTS, as a whole, the same way each of you does as a Board President for your particular regime.

The presentation tonight will be handed out in hard copy as well as be recorded on video and posted on our website. The bar remains open!!

○ Areas Covered:

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|---------------------------------|---------------------------------------|
| ○ Who Is LBTS? | ○ Our Planning Approach |
| ○ LBTS by the Numbers | ○ Our Future Vision |
| ○ How Is LBTS Governed? | ○ 2023 Steps and Activities |
| ○ What is River Club? | ○ 2024 Plans |
| ○ How Is LBTS Managed? | ○ COO Search and Hiring |
| ○ Issues We Face | ○ Property Purchase |
| ○ Revenue and "6% Dues Increase | ○ Conclusion/How Can We Work Together |
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WHAT IS LBTS COMMUNITY ASSOCIATION?

LBTS is a planned unit development started in 1978, with approximately \$2 billion of property value. It is owned and operated by its owners and members.

The way a “Planned Unit Development” works is that a developer files documents with the county for the long-term plan and required management of the Association, including dues, requirements for how the Association is to be run and managed, and rights the Association has to govern itself and its members.

Ultimately, any HOA is just a group of homeowners who agree to work together to maintain and manage their neighborhood, just by the sheer fact that they bought a piece of property within the planned development.

The LBTS Association is a “Master Association” with written governing documents filed with Georgetown County.

An elected Board of Directors governs the Association.

The “footprint” of the Association is broad and includes property on both sides of Highway 17; the Association also owns some property itself.

The Association is responsible for managing all of its common property and elements. These include some visible elements such as this Beach Club, the tennis courts, the roads and walking paths, lakes, and the Pool at River Club, but also include some less-visible elements like irrigation, plumbing and sewers, electrical and lighting, insect and pest control, and fire protection and prevention.

The Board is also authorized to make choices on prioritizing projects and services for the good of the community, such as security, landscaping, beach renourishment, and administration.

All of you here represent a sub-association within the footprint of LBTS, which means that you also have a second set of developer documents and restrictions to which you’re subject, and whose Board of Directors you sit on. LBTS is the “Master” Association; your associations are the “Sub-regimes.”

LBTS Community Association does have architectural review and control of all communities inside the gate on the Oceanside and River Club on the west side (including the commercial property space on Wall Street).

○ LBTS BY THE NUMBERS

- There are 2881 “residential” doors within LBTS.
 - Oceanside has 1528 units. ○ Willbrook properties have 899 units.
 - River Club has 250 SFHs and 87 condo units in 3 sub-regimes.
 - Commercial (Hwy 17 & Wall Street): 16 total owners
 - One golf course owner (River Club Golf Course)

 - The Association owns 350 feet of beachfront at the beach club and owns to the “high mean water line” on the beach itself. All of the beach frontage at LBTS from Breaker’s Reef to Charlestowne Grant is 5,260 feet.

 - Individual oceanfront regimes own the beach frontage at their HOA. Most of those also own to the “high mean water line.”

 - The 2024 Annual Budget is \$3.7M, made up primarily of:
 - Administrative staff/management \$561,000
 - Security \$931,000
 - Landscape Maintenance \$480,000
 - Facility Maintenance \$236,000
 - Contributions to reserves \$858,000

 - 2011 Budget: \$1.85M
 - 2015 Budget: \$1.9M
 - 2019 Budget: \$2.4M
 - Number of Annual vehicle “scans” into main campus: ~500,000
 - • Paved surfaces:
 - Oceanside streets and walking paths – 38,700 square yards.
 - ○ River Club streets – 54,400 square yards
 - 2024 cost to repair/replace: \$28.50/sq yd. = \$2.65M
 - Lakes: 3 – Osprey Lake, South Gate Entrance, and River Club (front entrance and behind homes on club circle)
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HOW IS LBTS GOVERNED?

LBTS is a not-for-profit organization (but is not tax exempt).

We hold annual elections of directors.

The dues paid and votes calculated for each LBTS member are based on whether their LBTS property is “Oceanside/River Club” or in the “Willbrook Properties.”

Oceanside and River Club (1865 units)

Dues \$1632 in 2024 (improved lots)

Vote is weighted at 7 votes.

Willbrook Properties (899 units)

Dues \$552 in 2024 (improved lots)

Vote is weighted at 2 votes.

LBTS governing documents include:

- Declaration: a legally binding document officially recorded and filed with the county, which covers critical legal issues such as property use restrictions, clearly defined maintenance obligations for the Association and individual members, mechanisms for rule enforcement, assessment obligations, and insurance obligations. For LBTS, these cannot be amended without a vote of the membership.
 - Example: calculation of annual and special assessment amounts, architectural control, members’ rights to common property
- Bylaws: the regulations of the corporation, which contain the basic rules for the conduct of the corporation’s business and affairs. For LBTS, these can be amended with a majority vote of the Board of Directors.
 - Example: description of annual and special meetings, the number of Directors, and how to utilize committees
- Rules and Regulations: the documents governing conduct upon, and use of, the Property under the jurisdiction or control of the Association, including the imposition of fines for violation of Association Rules, and procedural matters for use in the conduct of business of an Association.

All documents are filed with the county (or they are not enforceable).

The Board has significant latitude on decision making. The Declarations state that the Board of Directors is to “manage the affairs of the [Association].” This is to avoid a community vote except as necessary because it is cumbersome, costly, and only rarely needed.

Community votes only occur for:

- Election of Directors
- Changes to the Declaration (not Bylaws or Rules & Regs)
- Purchase/sale of Association-owned common property.
- Increase to the “cap” on the annual assessment (“Maximum Annual Assessment”) outside what the Declaration already provides.
- Levying a Special Assessment more than that provided by the Declaration.

The Board gets legal advice on major decisions to comply with the governing documents.

WHAT IS RIVER CLUB?

The River Club is a west side community of 250 single family homes and three condo communities.

River Club is unique within LBTS because the single-family homes are not part of any sub-regime. This is the only place within LBTS with homes that do not belong to a sub regime. River Club SFHs do not have a separate Board – they answer only to the LBTS Board of Directors.

River Club SFHs pay LBTS dues in the same amount as Oceanside owners and have the same weighted vote as Oceanside owners. Whereas other LBTS owners pay two sets of dues (one to the LBTS Master Association and one to their sub-regime), River Club SFH owners only pay one set of dues, to the LBTS Master Association.

Common property within River Club (the pool, roads, guard gate, drainage, and green space) is owned and maintained by LBTS, the same as common property on the Oceanside campus that is owned and maintained by LBTS (like the Beach Club, the roads, fishing and crabbing dock, and roads). This differs from the sub-regimes at LBTS because each sub-regime owns and maintains their own smaller pieces of common property (for example, the Charlestowne Grant pool or the Sandpiper Run grassy areas and crossovers or the Lakeside interior roads and parking lots – each of those is owned by their respective sub-regimes), whereas the LBTS Master Association owns and is responsible for all common property in the SFH portion of River Club.

This also means that all LBTS members are legally entitled to access and utilize all LBTS owned common property at River Club, including the pool. This differs from the sub regimes. Because sub-regimes own and maintain their own pools and common properties, “pool-hopping” is not allowed on the Oceanside campus. However, all LBTS owners may use the pool at River Club.

HOW IS LBTS MANAGED?

The LBTS Board contracts with Waccamaw Management for administrative and maintenance functions. It's a long-term agreement with a 90-day cancellation.

Security and landscaping are contracted to third parties; those contracts are managed by Waccamaw Management.

Prior to 2023, LBTS was part of a portfolio management structure with no full-time management. A full-time General Manager was initiated in 2023, with a full-time assistant.

Waccamaw Management has been our management company since inception, when both entities were part of The Litchfield Company.

ISSUES WE FACE

Our campus is approaching 50 years old.

Our management approach has not changed since 1978.

We do not own or control the property surrounding our irrigation water source and the equipment needs replacement.

Our revenue has been insufficient to maintain a quality infrastructure and is outpaced by inflation.

We have not regularly reviewed and updated our governing documents.

We have been operating under incorrect interpretations of our governing documents.

We have not previously considered a comprehensive beach management plan.

Amenities have been taken away from the original plan and the footprint has changed (e.g., golf courses, indoor pool and fitness center).

We do not have onsite offices for our staff or for owners to receive in-person customer service.

Our main gate/front entrance is insufficient for the traffic flow.

REVENUE AND “6% DUES INCREASE”

The Board has previously communicated that annual dues could only be increased by 6% over what was charged the previous year.

This was not correct. We have reviewed with three separate attorneys, all of whom have agreed that our governing documents do not support that interpretation.

The Board does not intend to implement any drastic change to monthly or annual dues (except for discontinuing the “Special” assessment that has become standard practice in recent years) – to the contrary, the Board is dedicated to developing other revenue streams, such as the Resort Fee that started this year, to create an income base for future growth that is not based on owner dues.

There are specific regulations in the governing documents regarding how much can be levied annually in dues. It is a very specific formula that started with a \$360 maximum in 1978 for Oceanside improved units, increasing by AT LEAST 6% per year – higher if inflation is more than 6%. (We believe this is where the “6% over last year’s dues” misunderstanding originated.) It may increase by MORE THAN 6% in any given year if a specific inflation index is high, though this has only happened 3 times since 1978.

The annual dues charged can range from \$0 up to that year’s maximum and are not impacted by what was charged last year. We will share a more detailed written memo from Legal to show how we reached this calculation, but the Annual Maximum for 2024 is \$5180 for improved lots at Oceanside and River Club, and \$1850 for Willbrook. 2024 dues levied were \$1632 for Oceanside and River Club, and \$552 for Willbrook.

This is important information. We have been told for years that LBTS has a revenue problem, and we couldn’t increase dues because our governing documents prohibited it. We know now that is not correct.

It is helpful for the community to understand that since 1978, our dues have not even kept up with standard consumer inflation: \$360 in 1978 was worth \$1721 in 2023, but 2023 annual dues were \$1539. That also doesn’t account for the significant increase in owners and their guests, vehicle traffic, maintenance and infrastructure needs as the association ages, or any major refreshes needed throughout the years.

The conclusion here is that the Association is not prevented from raising annual dues needed in order to fund the Association the way we thought we were. And we also know that our current dues are not enough to fund the Association the way it needs to be funded, especially with the major infrastructures coming upon the end of their useful life.

The Board DOES NOT intend to raise dues to the Maximum (or even close to it).

Remember: Board members pay the same dues you do.

PLANNING APPROACH

Take an inventory of all of our assets and activities.

Research and visit peer communities to benchmark best practices.

Review and update all governing documents, so the Board knows its responsibilities and authorities.

Form strategic partnerships.

- Enlist outside experts on matters of:
 - Beach management and renourishment
 - Physical plant operations
 - Legal to review all governing documents, clean up, check county filings, and educate the board.

Educate and align the board on all the above, regularly and as new Board members come onboard.

2-day Board retreat – Fall 2023, and will be annual thereafter

- Review performance and value add of all major vendors.
- Review 3–5-year strategic plan against current performance
- Review reserve study and understand upcoming projects.
- Prioritize and re-prioritize major expenditures as appropriate.
- Annual budget review and next-year budget planning Explore and implement desired amenity improvements.

FUTURE VISION

After 18 months of study and benchmarking, the LBTS Board has concluded:

- The community should transition from a portfolio management model to a self-managed model.
- The community should move from a committee/volunteer management to professional in-house management, similar to our peer group communities.
- LBTS will increase revenues from current levels to \$5-5.5 million within 2 years, to fund the transition, catch up on needed repairs and improvements, maintain the appropriate run rate, and fund reserves.

- The Governing Documents will be reviewed and updated, and a “clean” copy published on our website.
 - The Board will fervently work to re-establish original LBTS resort amenities to benefit members and guests.
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○ STEPS/ACTIVITIES

- Researched, planned, and announced a non-owner revenue source in the form of a Resort Fee, to start Jan 2024
 - Researched our Bylaws on the Board’s authority to increase revenue/dues.
 - Researched how peer communities manage their resorts, including visits to Grande Dunes, Debordieu, Wild Dunes and interviewing their COOs.
 - Looked for property to relocate our staff on or near the beach campus.
 - Researched how to bring in standalone management, in the image of Debordieu and Wild Dunes
 - 2-day professionally moderated strategic retreat
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PLANS UNDER DEVELOPMENT

- Resort fee payments start in February 2024 ○ Will take months to fully realize because of pre-bookings that will not be charged (if booked before Sep. 1, 2023, Resort Fee was not charged)
 - More than \$500k run rate expected per year once fully realized.
- On our bylaw/gov doc research, we verified that we could raise dues to meet our needs.
- Retained a national search firm to hire a COO to start Summer 2024
- Partnering with Litchfield Beach & Golf: beach services to be offered through the Beach Club deck, and discussions on “bringing back” access to their fitness center and pool for LBTS owners.
- Made offers on properties and a building at the main entrance to improve our entrance efficiency and safety and house our staff on-site.

- Flurry of activity occurring on Wall Street, which is the commercial property at the front of LBTS, including multiple sales and buildings being constructed. ○ LBTS Association has architectural control but no “use” control unless we own property there.
- Significant landscaping overhaul, including needed repairs to fountains and lighting.

COO SEARCH AND HIRING

LBTS has formally kicked off the process of searching for, and hiring, a Chief Operating Officer, as part of the process of moving toward a self-managed operation.

- What is our management structure now?
 - Currently LBTS utilizes Waccamaw, a third-party management company, which manages multiple clients’ HOAs, to handle the tactical and operational needs of the Association. It has been supplemented heavily by the Board, committees, and other community volunteers. ○ Until 2023, we did not have a full-time manager – we shared our manager with multiple other regimes as part of a “portfolio.”
- What is a COO? How is that different from a manager?
 - A manager is the person who oversees day to day activities of a business.
 - Property Managers are not expected to bring a strategic perspective, initiate or manage large projects, engage in process improvement, or promote a strategic direction.
 - A Chief Operating Officer provides managers with strategic goals and visions as set by the executive team of a company. They provide leadership skills and drive the organization toward achieving these goals.
- Why do we need a COO instead of just using Waccamaw Management?
 - Doing this job effectively requires both property management AND business management. Waccamaw Management is not a business manager.
 - Master Associations like LBTS generally don’t use third-party management.
- Why do we need to spend so much on Management? Why not use volunteers?
 - LBTS is responsible for a \$3+ million annual budget and \$2+ billion in real estate values, managing access to the property, security, and maintaining all the roads, amenities (Beach Club and fishing dock, etc.), electric and plumbing, etc. This is much more than the maintenance at a sub-regime.
 - In addition, the unique nature of LBTS, with three separate sets of properties, two types of owners (Oceanside/River Club and Willbrook Properties), commercial owners, and a high rental profile, along with a full

mile of beachfront, requires a greater hands-on approach than we have had even with management in recent months. We need full-time dedicated staff, on-site, committed to the future of LBTS.

- Unpaid volunteer work cannot be used in lieu of paid management for a business of this size. And unpaid volunteers cannot be expected to put in full-time hours consistently.
- The Board is currently doing much of the work the COO will do – and this is not sustainable. We need consistency and expertise at the helm!

As of now, we believe we need ~4 full time employees to effectively run LBTS.

PROPERTY PURCHASE

The Board is pursuing the purchase of two pieces of property at the front of the Oceanside campus. This is a long-term strategic planning initiative, with short-term benefits in the form of improving the main entrance (especially the bottleneck that packs owners, renters, visitors/guests, and large commercial vehicles into a single “lane-and-a-half”) and allowing LBTS management to come onsite.

More details will be coming in March and April. The Association cannot purchase property without an owner vote, so you will have the opportunity to attend a Town Hall (we will host several, in both virtual and in-person formats) as well as cast your vote, after hearing the reasoning behind the recommendation and all the details.

However, to ease the mind of all owners in advance of those town halls: **there is NO expectation that dues will increase as a result of this purchase, and certainly not to the maximum that was referenced earlier in this packet.** If the vote is successful and the purchase goes through, the total cost per owner is less than \$500 for the entire property purchase. As fellow dues-paying owners in the community, the Board believes this is a worthy investment, and we believe you will too.

CONCLUSION

We are passionate about protecting the property values of everyone who owns within an LBTS community, as well as improving the experience for all owners, renters, visitors, and other stakeholders associated with LBTS.

This work is often thankless, but as we continue to uncover more information about our community and responsibilities, we grow more impassioned about re-energizing and getting Litchfield to be the incredible resort community it was always meant to be.

The Board and staff have many irons in the fire for 2024, but we are committed to working through the challenges and continuing to plan for the future of the resort. You will continue

hearing from us through meetings such as the HOA Presidents' meetings, public Board meetings, website and Town Square communications, and letters. We plan to start utilizing formal surveys to get feedback from the community. And we plan to start in person discussions with individual sub-regimes, so you have better opportunities for questions and discourse on what's happening at LBTS.

We appreciate your support and patience as we work through these challenges.

We are excited about the future of LBTS – and we hope you are too!