

LETTER FROM THE PRESIDENT

October 2018

Summer House Owners:

It's important to keep our eyes continually focused on the larger picture. I want to review, once again, the path your Board has chosen, and why. As a guide, I'll update [in Red] a letter I wrote and published to the membership in November 2017 [original in Black].

The Overarching Agenda

When I became President of Summer House, we had an enormous negative gap between the anticipated cost of our deferred maintenance and the balance of our available reserves, a gap somewhere around 3+ million dollars. [Now that we have repaired more buildings, that negative gap looks to have been somewhat larger.] The agenda of the Board was to do the disruptive and unpopular work of fixing the physical disrepair of the property.

We had common pipes [HOA owned] on both the Golfside and the Beachside that were beyond the end of their useful lives that had never been replaced, although from the time of conversion we *always had* a cash reserve balance in excess of \$500,000 earmarked for that work. Apparently, no previous Board had been willing to undertake the messy and disruptive task of re-plumbing 315+ units, Golfside and Beachside.

Doing that kind of work makes everyone, residents and owners, uncomfortable. We had to do it, so we just did it, and with some money left over. Yes, it was messy and residents didn't like the invasion of their living space, and the office managers and Board members were verbally assaulted on a regular basis, but now the job is done. Now, the Association no longer spends tens of thousands of dollars every year repairing leaks. Now, all those units have modern cold water delivery that works efficiently. [Once the messy work is complete and a longstanding problem solved, the Board and our managers enjoy a moment of accomplishment, and then begin the grind of the next project. That's the pay rate, and that's okay with all of us.]

We had sidewalks in disrepair and numerous drainage valleys which not only created inconvenience for residents, but were producing slip and fall lawsuits and increased insurance costs for the Association. We were able to address these issues in-house in an extremely cost effective manner. Then, we worked with a new insurance provider to reduce our premiums as a result of a superior inspection assessment of those items.

The siding on 20 of the 21 Golfside buildings was failing and had been failing for years. No water intrusion work had ever been performed, by the Developer of Summer House or the Board subsequent to conversion. There are gaps in the siding and trim that water, insects and even vermin can enter. In many cases, large portions of the framing, headers and chimney runs are significantly compromised. Mold growth from this water intrusion is common. Water intrusion is a health and safety issue.

To make matters worse, we didn't even have an existing reserve account for those repairs; most of the reserve funds were isolated by past Boards and the money could not legally be used to repair the water intrusion. So, we changed the reserve accounting so that we could utilize **future** reserve funding for the purposes necessary. Over \$400,000 of our reserves, to this day, remain unavailable for water intrusion repairs. [There's nothing we can do about the past. Best to understand those mistakes and move on, focusing on what we can control moving forward. That's what we're doing.]

At that point in time, the Board had to decide to either cash flow those massive repairs over time, raise dues very significantly or special assess the owners to pay for the repairs. For better or worse, we chose to cash flow the repairs. [If you have any doubt that our membership prefers not to significantly raise dues or be special assessed, you are simply not in touch with our membership. The sentiment is overwhelming. As Board members, we take that sentiment very seriously...and agree with it.] Our back of the envelope estimate for a special assessment [each building has a unique set of problems and costs, so all anyone can do is estimate the costs] was an average of around \$8,000 per unit. Because we have cash flowed the front end of the project, that number would be around \$6,000 today. [Again, with more project experience, we now believe those numbers were low. I did not even state my own case forcefully enough.]

Bottom line result: a majority of the Board decided to tighten our belt on operating costs to the extent possible and cash flow the repairs at the maximum rate possible given our funds. It was the conscience of the Board that most owners were in favor of that approach. [It is still the conscience of the majority of the Board that the **vast** majority of our owners favor the approach we chose. Our eyes and ears are always open, but we're receiving a nice amount of positive feedback from owners as we make progress upgrading the property. At the October meeting, we detailed the mathematics of the project. Bottom line: the math offers us no alternative but to maintain our present course of action.]

The Balance between Money and Capital Improvements

I hope that all owners understand that the HOA's money is not endless. We have to balance the available money, the capacity of our membership to pay, and the needed capital improvements. We have proceeded with maximum frugality. [If you see flaws or inefficiencies in the budget or are just curious about the HOA's finances, we all gather every year for an informal Budget Workshop to discuss the line items. Speaking about individual line items brings out the best specific questions and ideas from everyone. The Workshop also allows us all to think strategically about the best allocation of our limited funds and to share those larger ideas with our managers, who have proven to be a relentless and superior cost control and delinquency collection team. They profit from hearing ideas, too. If you would like to have some insight or input into this process, **you are invited** to the Workshop.]

I have heard the argument that the Board has chosen to spend too much money on the Golfside and not enough on the Beachside. We're all entitled to our opinions, but facts are facts. Since turnover from the Developer, your various Boards of Directors have spent roughly twice as much in reserve/capital improvement money on the Beachside than has been spent on the Golfside. But even that measurement is not really important; the siding, headers, chimneys and stair landings on the Golfside are failing. Addressing this deferred maintenance is not optional. This work has to be done. If it isn't, the costs [for everyone] will skyrocket. When we have water intrusion [always small areas] on the Beachside, it is fixed immediately. There are no major outstanding health and safety issues on the Beachside. [And we have had some minor intrusion issues in the last year on the Beachside which have been addressed in the normal course of business. We budget for isolated, non-systemic repairs and execute them. Strategic focus should be on keeping the positive capital improvement projects moving forward.]

I have heard the argument that the HOA should borrow the money to achieve our capital improvement goals in a more timely manner. Never has anyone been able to demonstrate the math on that approach. If someone can show the Board how we would be able to make the payments necessary on that kind of loan, I'm sure the Board would consider it. But the reality is that even that solution would involve the extraction of materially more funds from the membership in order to make the payment and carry out basic operating functions. And all that assumes, of course, that a bank would even make a loan that would so severely strain the finances of a not-for-profit Association. [At the October meeting, we all pulled out our calculators and discussed the nitty gritty financial aspect of our massive construction project. Is everyone still awake? Bottom line: progress will continue but won't be as fast as any of us would prefer. But you can be confident that the Board will also proceed with financial prudence so that unexpected expensive events, like Hurricane Irma, won't cripple us financially.]

There are many worthy projects on the horizon in my opinion. We will need to make major improvements to our Beachside pavement. We will need to rebuild the maintenance buildings everywhere on the property. We will need to wrap the Beachside fascia in metal to prevent the annual carpenter bee/woodpecker damage. There are a number of landscape and tree removal/maintenance items that would prove worthwhile. But these improvements, while necessary and desirable, must be weighed against the highly deteriorated condition of multiple Golfside buildings IN WHICH PEOPLE LIVE.

In the hierarchy of expenditures, a majority of the current Board chose to address health and safety issues first. Issues that are worthwhile but don't affect the health and safety of residents must wait. There is no other rational path. [The Board has heard you loud and clear: you agree with us.]

And understand where the ultimate responsibility for our circumstance lies. While it would have been optimal to begin performing this water intrusion work years ago [for many HOA's, water intrusion work is an ongoing budget item every year - we live in Florida], the Developer turned over our property to the HOA in a materially compromised physical condition that was not addressed by the Developer during conversion. There's the heart of the matter, and there is nothing left for us to do except to fix it as best we can. That's the long overdue work that is underway. [And while the Board and the managers would like nothing more than a swift and sure accomplishment of all our goals, progress in the real world is more incremental. Interesting update: in April 2013, before our present Board began its long term capital investment program, Summer House had reserve and cash balances equaling \$1.659M; today, that number stands at \$1.052M, a reduction of \$607,000. The punch line, of course, is that we have spent \$2.316M on capital improvements in the interim, not including the rebuild of Building 13, which was mostly, but not totally, insured. Lesson: it takes time, but we're getting it done!]

The Role of the Board

The role of the Board isn't to be popular and address the complaints of their friends. The role of the Board is to do the right thing for everyone. A majority of the current Board has cohesively engaged in a multi-year effort to do so without assessing the owners for the shortcomings of the Developer. The Association is not the Developer. We didn't sell any condos or receive any profits from those sales. We didn't make any promises to buyers.

A majority of the current Board has, however, faced up to the lingering problems of the Summer House property and moved forward with decisions that are difficult and bring controversy but are required if the property is to avoid a long term loss of value as a result of deferred maintenance. [A majority of the Board has philosophically 'dug-in.' We're not going to ignore the messy but important issues and leave them unaddressed for some future Board to grapple with. We're going to do the right thing for the

Association and let the chips fall where they may. Mr. Market has judged our decisions and progress positively with nicely rising property and rental values.]

In other words, we've just been trying to fix it. If the owners wish not to re-elect the current Board members who have chosen this path, that is your prerogative. But if you do so, a new Board with new leadership will have the same choices I have outlined with the same amount of money. [The parameters of the issues we face as an Association are not going to magically diminish and the resources we have to spend are not going to grow materially without inflicting financial pain on the membership. The membership understands the need for small increases in dues designed to maintain the current level of services but, by a broad and deep supermajority, will not tolerate a large special assessment or huge increases in monthly dues. Whatever minor controversy has been generated by the path undertaken by the Board is controversy resulting from telling the truth out loud. That will continue. So will our constant drumbeat of activity designed to raise property and rental values in our community.]

Thanks for your support.

Joe