

LETTER FROM THE PRESIDENT

Election 2017

Summer House Owners:

On any path, there are irritations, obstacles and frustrations. The key is to keep your eye on the path - the big picture. Setting the path is not only the most important job of your Board; it's the only job of your Board.

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. 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.

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.

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. 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.

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.

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.

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.

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.

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.

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.

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.

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. Will they have the skills to understand the details of the finances, and the operational and construction questions that will require answers? Isn't this the criteria for Board membership, at least at this stage in the life of Summer House?

Major construction is expensive, complex and a somewhat chaotic undertaking. Our architect and contractor know the quirks of our buildings and have tweaked the

reconstruction process to be as efficient as possible. Is it best to begin again with new crews?

The Board is always ready to hear the commentary of the owners on our strategic path, but **wishes and promises are not a path** until there is a realistic plan to pay for them.

Everyone has next year's proposed budget in their hands at this time. Take a minute to look at it and ask yourself what you would cut from the budget to produce the funds for additional capital improvements, loan payments or a faster construction pace. Or would you, as a Board member, special assess the membership? Or would you prefer to significantly raise dues?

Would you change the hierarchy of capital improvements that I described above? Would you elevate cosmetic improvements over health and safety issues? Would you be okay with being personally responsible for a decision like that?

Would you want to make sure that the financial footing of the Association was sound, or would you think it was okay to proceed without a nuanced and detailed understanding of the money involved? Of those who propose a different capital improvement path, who has articulated a realistic financial path on which their vision is based?

How to balance all of these competing needs with the money and resources available is the duty with which the Board grapples. Ask yourself: if I were on the Board, what would I think was the right path for all the owners as a whole? It's the most important question for each member of the board each year. It's a question that you should think about before you vote, too.

The current members of the Board, in addition to myself, are Shane Kammerdiener, Jana Piper, Arlene Roy and Janet Wells.

Thanks for your support.

A handwritten signature in black ink that reads "Joe". The letters are cursive and fluid.

Joe