

**COMBINED MEETING OF THE BOARDS OF DIRECTORS
MONTEREY DUNES COLONY ASSOCIATION
AND
MONTEREY DUNES COLONY MUTUAL WATER ASSOCIATION
March 18, 2006**

PRESENT

Ellen Michaels, President
Frank Williams, Vice-President
Marty Deggeller, Treasurer
Jeff Schwartz, Director
Tom Bugary, Secretary and General Manager

ABSENT

John Steinhart, Director

WELCOME

Ellen Michaels called the meeting to order at 10:00 AM, March 18, 2006 at the Monterey Dunes Colony Clubhouse.

MINUTES

The Board reviewed the minutes of the January 21, 2006 meeting. It was M/S/C to approve the minutes as written.

TREASURER'S REPORT

Marty Deggeller, Treasurer, gave a verbal report. In lieu of reading the account balances from the treasurer's report, Marty stated that the financial report for January and February is attached to the minutes. Marty noted that the Reserve Account balance dropped significantly in February because of two major expenses: 1) the Association paid a down payment on a load of sidewall shingles, and 2) we made progress payments on the multipurpose recreation area. Marty told the homeowners that payments to the Capital Replacement Fund of \$16,320.00 per month and \$3,750 per month to the Mutual Water Association were current.

ADHOC INSURANCE COMMITTEE

Marty Deggeller, Committee Chair, explained that the reason this committee was formed was to review the Association flood insurance policy and make recommendations to the Board as to adequate levels of insurance, and how homeowners, who want supplemental

insurance coverage, can purchase this insurance. During last year's insurance review, the Board felt that the flood insurance offered by our carrier was insufficient to cover the colony and wanted options on how to best provide adequate coverage.

Findings:

1. The existing flood policy provided \$15M in blanket coverage. The insurance company estimates the colony will cost nearly \$30M to rebuild if sustained a total loss due to flood. (This figure is based on a \$150 per square foot re-construction figure).
2. Under our current commercial policy, homeowners cannot supplement the master policy with FEMA supplemental insurance.
3. The existing policy has a very high deductible – approximately \$56K per building, even if the building is only marginally damaged.

Marty noted that the advantage of the existing policy is that it provided blanket coverage, therefore, the total amount of the policy is available to cover a single building or multiple units up to about 50% of the colony, minus the \$56K deductible per damaged building.

After considerable research, and multiple meetings with our insurance agent, the committee is recommending that the Association discontinue its commercial policy with Great American and buy a FEMA policy at 80% of the rebuild cost estimated for the colony, (\$24M). The FEMA policy, recommended by the committee, is tailored for homeowner associations where an individual (building) policy is written on each of the 41 residential buildings. The deductible on the FEMA coverage is approximately \$6K per building which is dramatically less than our current coverage.

The Association FEMA policy does not include individual contents coverage, however, Marty told the Board that with the FEMA policy, homeowners could purchase supplemental coverage if they desired, over and above the 80% covered by the master policy, as well as contents on a sliding scale, depending on what they wanted.

After discussion, the Board M/S/C the committee's recommendation to purchase the FEMA Association flood policy at an estimated annual cost of \$45.5K, with an effective date of 8/1/06 (normal insurance renewal date). The Board asked the manager to have our insurance broker draft an informational letter to be sent to homeowners explaining all of the Association's insurance policies and what options homeowners have to increase coverage for their units if they elect to do so.

FINANCE COMMITTEE REPORT

Last Meeting 3-17-06 – 10:00 AM

John Gentry reported that the committee had met at 10:00 a.m. the previous morning to:

1. Review the fiscal year finances through February (July 05 – Feb 06).
2. Review the draft proposal of the FY 2006-07 operating budget as submitted by the General Manager.

3. Review the Reserve Study Update prepared by Barrera and Co.

John commented that it was the opinion of the committee that the colony is fiscally sound, the operating account is expected to end the fiscal year with a small surplus.

06-07 Operating Budget

John Gentry reported that the manager had prepared a draft proposal of the FY 2006-07 operating budget with detail for each budget line expense, as well as a forecast of the FY 2005-06 year ending expenses. The Finance Committee reviewed these budget line items and after a lengthy meeting, recommends that the Board approve this budget proposal with an increase in homeowner's monthly dues from \$665.00 to \$705.00. John stated that \$22. of the \$40. per unit, per month increase is due to an increase in premiums for our master flood insurance policy. Other major contributors to the increase in dues were in fuel budget lines with a small increase in administrative costs. Ellen noted that there had been no increase in dues last year and other than a couple of unavoidable increases in expenses, the budget remains almost the same as last year with very little contingency built in it. After a short discussion, the Board M/S/C the committee's recommendation to approve the proposed FY 2006-07 operating budget with monthly dues increased to \$705.00 effective July 1, 2006.

Reserve Study Update

Barrera & Co. submitted the 06-07 Reserve Update for committee review. The update had only minor changes to the original study conducted in March 05.

The next meeting of the Finance Committee will be on May 13, 2006 at 9:00 a.m. in the Clubhouse.

ENVIRONMENTAL CONTROL COMMITTEE (ECC) REPORT

Last Meeting 3-16-06 – 1:30 PM (Teleconference)

Mary Jansing Balgooyen, Chair of the ECC, stated the committee had a teleconference a few days before.

The owners of unit #306 had re-submitted an application for a remodel. After reviewing the requested modifications, the committee approved this application subject to conditions.

ADHOC TENNIS COURT (RULES) COMMITTEE

Bill Michaels, Committee Chair stated that the committee consisted of himself, Russ Ryder and Ted Swanson. He said that the purpose of the committee was to determine what rules were needed regarding the use of the new recreational area. After a couple of meetings, the committee recommends the following rules:

1. Hours of Operation are daylight hours.

2. If more than one party wishes to use the facilities (bocce ball court, putting green, etc) there will be a sign up sheet with a 1-hour use time.
3. The Association will not be in the business to purchase and lend out equipment. Homeowners wishing to use the facilities should purchase their own equipment and issue it to their guests.

GENERAL MANAGERS REPORT

Deck and Fence Replacements

We have replaced 18 unit decks identified as unserviceable this fiscal year, (July 1, 2005 through June 30, 2006). The Association originally planned to replace 15 decks in the 05-06 budget, however has already exceeded this goal and budget due to increased replacement requirements. We are also in the process of making major adjustments and repairs to the tennis court viewing stands, clubhouse decking, and associated railings near the clubhouse as directed by county building officials. These adjustments are part of the permit issued by the county to refurbish the restrooms at the clubhouse.

We have replaced 12 dual-unit refuse enclosures this fiscal year. Refuse containers are funded out of the fence budget line and we are already at 150% of our goal for this year. Fences and refuse containers are replaced as they become unserviceable and it is hard to predict when an enclosure will start failing. Although we have exceeded our goal in fence replacements this year, any replacements that are considered safety issues, or fences in need of immediate repair or replacement as determined by the construction foreman will receive immediate consideration for replacement. Funding for these emergency replacements will be temporarily shifted from other projects to cover these replacements.

Window Replacement Project

We have replaced 125 of the 147 windows scheduled for the 2005-2006 budget year. I anticipate completing the projected replacements this year.

Re-siding Project

We completed units 144, 272, 192, 194, 142, and 134 and are currently reshingling walls at 244, 158 and 218.

Six months into this fiscal year, garages at units: (120,122,124), (126,128,130), (176,178,180,182), (184,186,188), (190,192,194), (230,232,234), (264,266,268) (270, 274), (324, 326,328), (282, 284,286) are resided.

The shingling project is still behind schedule 8-months into the fiscal year, however, we are focusing on the project as window and deck replacements for the year are completed.

Insurance Risk Assessment Findings Update

During a past Risk Assessment Inspection, a field representative of the Travelers Insurance Company, recommended (stating a requirement) that sleeping rooms in every residential unit in the Colony have smoke detectors installed that would be continuously powered by the house electrical service.

The Board directed me to work with our insurance agent Jeff Kane in defining what the insurance company actually required, and what was only recommended, and (if necessary), develop a scope of required work, and to obtain bids on installation of any necessary smoke detectors.

As of Thursday, March 14, 2006 our insurance agent recommended that at a minimum, the Association send each owner a memorandum outlining the need for adequate smoke detectors in their homes.

Tom noted this environment as very corrosive to the electric panels in and outside of the homes, as well as to the circuit breakers in the electrical panels. Corroded circuit breakers can easily lead to a breaker not tripping when overloaded, causing an electrical fire in the panel, wall or at an appliance. This happened recently in one of the units. The homeowners were in the unit when a wall fire started. If they hadn't been there, we could have easily lost the unit, or even the building. A similar situation occurred when an electrical panel in the rental unit started to arc back through the conduit, connected to the back of the panel, and burned a portion of the wall in the utility room. Both of these instances occurred over the past year. The Board discussed the necessity for an electrical inspection and elected to have each unit inspected for smoke alarms as well as the panels, circuit breakers and circuits. The Board wanted the inspection conducted similar to the fireplace inspections where homeowners would receive a report on their respective units. Tom commented that the agency conducting the inspection should not be allowed to do any recommended repairs. The Board M/S/C to research, solicit bids, and contract for an electrical inspection of each unit. Possible agencies to use for this inspection were the Fire Department, County Building Inspectors, or an independent electrician who would not be allowed to make any recommended repairs. The Board also instructed Tom to draft a letter to the homeowners explaining what the inspectors would be looking for and to coordinate the inspections the same way we did the fireplace inspections.

A requirement by the Traveler's Insurance Inspector was to have the Association install a water sprinkler system in the building that houses the water system distribution equipment. We researched the feasibility of this requirement and while putting the specification sheet together, found that the company that manufactured the electronic equipment for our water system (TESCO), did not recommend we install sprinklers in the building where the electronic distribution panels were housed. Their rationale was that while a sprinkler system may retard a possible

diesel fuel fire originating from the backup fire pump or the pumps associated fuel tanks; it would destroy the electronics in the panel and could shut down the primary distribution pumps in the process. We have sent the recommendations from TESCO to the Insurance Agent for their determination.

Tennis Court Project

The Tennis Court Project was started on September 17, 2005 by the Don Chapin Company and is now close to completion. I anticipate opening the multi-purpose field in early April with the Bocce Ball Court, Putting and Chipping Green, Driving Range and Horseshoe Pit completed. The center tennis courts and basketball court are now operational. The shuffleboard court, co-located with the basketball court is on a punch list for warranty repairs and the multi-purpose courts will soon be landscaped and a small fence installed between the basketball court and the multi-purpose area. As a recommendation from the Rules Committee, I am researching the cost of padding for the basketball hoop posts to prevent injury when players accidentally run into the metal posts.

Management has temporarily secured the 2 northerly-located tennis courts for repairs. These older courts will be reopened this spring.

Swimming Pool

The swimming pool is scheduled to open on Friday, April 14, 2006.

Storm Damage

Winter storms continue to hit the colony with wind, rain, and high surf with minor damage to residences and common area facilities. Sidewall shingles, Chimney flues and caps, and fences accounted for the majority of the damage to the residences.

Changes in Operating Procedures

In addition to changes to our Election Process (§1363.03, §1363.04, §1363.09), and in our Assessment Collection Policy (§1356.01, §1367.1, §1363.001, §1367.4, and §1367.5), other major changes to the Davis Stirling Act:

Increased rights to inspect Association records – (§1363(f) and 1365.2)

Exclusive use of portions of the Common Area – (§1363.07)

These changes are effective on July 1, 2006 and will be outlined in the disclosure packets sent to the members in May.

OLD BUSINESS

None

NEW BUSINESS

Assessment Collection Policy Rewrite (SB 137)

Tom presented a draft Assessment Collection Policy prepared by our attorneys. After a brief discussion of the newly revised law on assessment collections, the Board M/S/C approval of the policy and directed the policy update be sent to homeowners.

Election Rule Requirement (SB 61)

Rules governing association elections have changed dramatically as compared to how we have run our elections in the past. Even though SB61 has changed the way we elect board members, the “nuts and bolts” of the law has not been clarified, and even though we know we will have major change in our next election, the law is still considered by our attorneys as a “work in progress”. The law, as presently written, does not provide any provisions for cumulative voting, proxies, or for nominations from the floor. All elections under SB61 are mandated by secret written ballot, which also eliminates the ballot and written consent form used previously when voting on association issues. It also puts restrictions on who can be the inspector of elections and how the ballots are handled. SB61 also requires that secret ballots be opened at a general membership meeting on the date of the election. Tom commented that he will continue to keep the board informed on updates as the industry presses the legislature for clarification to this and other new laws.

Engagement Letter for CPA Services

John Gentry noted that the Finance Committee recommended to the Board that they engage Joelyn Carr-Fingerle, CPA to perform our FY 2005-06 annual audit. The Board M/S/C this recommendation.

CLAC Renewal

The California Legislative Action Committee (CLAC) is the advocacy group of Community Associations Institute (CAI). CLAC is an institute who supports the legislative efforts in California on behalf of homeowner associations. CAI is asking for contributions to help fund CLAC’s effort. This year, CAI recommends that donations be \$2.00 per home or, for MDCA, \$240. Historically, CLAC has requested a “buck-a-door” or, \$120.00. After discussion, the Board M/S/C to again support the advocacy group with a donation of \$120.00.

WATER COMPANY BUSINESS

Water Conservation Update for January and February

During the January and February billing periods, there were no units that exceeded the Tier 2 or Tier 3 zones.

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:20 a.m. The next meeting of the Board of Directors will be May 13, 2006 at 10:00 a.m. The following meeting is scheduled for June 17, 2006 at 10:00 a.m.

EXECUTIVE SESSION

Requests for Late Fee Waivers

Two requests for late fee waivers.

FOR THE BOARD OF DIRECTORS:

//s//

Thomas J. Bugary, CMCA, CCAM
General Manager and Secretary

**Treasurer's Report
January and February 2006**

This report covers our fiscal year budget status through February 28, 2006.

January 31, 2006 and February 28, 2006 account balances are:

	<u>January</u>	<u>February</u>
Union Bank Reserve	\$342,688.41	\$287,707.54
Union Bank Operating	\$ 62,482.37	\$ 33,847.31
Union Bank Investment Acct.	\$ 7,804.51	\$ 7,808.68
Community Bank Petty Cash	\$ 1,200.56	\$ 495.52
Union Bank Water Operating	\$ 17,922.11	\$ 16,557.25
Union Bank Water Reserve	\$ 71,118.51	\$ 72,510.88

Payments to the Capital Replacement Fund (\$16,320.00 per month) are current.

Payments to the Mutual Water Association (\$3,750.00 per month) are current.

Respectfully Submitted,

Martin E Deggeller

**Martin E. Deggeller,
Treasurer**