

**COMBINED MEETING OF THE BOARDS OF DIRECTORS
MONTEREY DUNES COLONY ASSOCIATION
AND
MONTEREY DUNES COLONY MUTUAL WATER ASSOCIATION
June 21, 2003**

PRESENT

Mary Jansing-Balگوoyen, Vice-President
Marty Deggeller, Treasurer
Ellen Michaels, Director
John Steinhart, Director
Tom Bugary, Secretary and General Manager

ABSENT

Dick Love, President

WELCOME

Mary Jansing-Balگوoyen called the meeting to order at 10:05 AM, June 21, 2003 at the Monterey Dunes Colony Clubhouse, 195 Monterey Dunes Way, Castroville, CA. 95012

MINUTES

The Board reviewed the minutes of the April 19, 2003 meeting. It was M/S/C to approve the minutes as written.

TREASURER'S REPORT

Marty Deggeller prepared a written report and presented it as follows: "As of May 31, 2003, our account balances are: Union Bank reserve account \$602,890.79; Union Bank operating account \$103,384.94; Union Bank investment account \$6,219.80; Union Bank CD reserve account \$115,000.00; Community Bank petty cash account \$1,105.78; Union Bank water operating account \$10,671.66; and, Union Bank water reserve account \$161,792.63. Payments to the Capital Replacement Fund of \$16,320.00 per month and \$3,316.80 per month to the Mutual Water Association are current."

CC&R/POLICY REVISION COMMITTEE REPORT

Marty Deggeller gave a verbal progress report concerning the ADHOC CC&R Policy Revision Committee. He stated that shortly after the last Board meeting on April 19, 2003, the committee met with Sandy Bonato, one of the Association's attorneys. After the meeting, Sandy felt she had the general guidance from the Association to write the first draft copy of the revised CC&Rs. When the committee gets the draft sometime in late July, the draft and a list of all the changes

that have been incorporated into the draft will be sent to the homeowners for review and comment. After a meeting where this revision will be discussed, a ballot will be sent out to the members for vote.

FINANCE COMMITTEE REPORT

John Gentry, Finance Committee Chair, reported that the Finance Committee met earlier this morning to review the finances of the Colony through May 2003. John reported that the Association is pretty much “on target” regarding both income and expenses. The committee intends to meet again on Friday, August 22, 2003 when, at that time, they will receive the results of Joelyn’s audit and management report. The following day, at the Board meeting, the Finance Committee will make a recommendation to the Board regarding the FY2002-2003 audit.

ENVIRONMENTAL CONTROL COMMITTEE (ECC) REPORT

Ellen Michaels reported that the ECC met on June 5, 2003 and reviewed two requests for architectural change

- 1) A third submittal for remodel to unit #258 – approved with some very stringent stipulations, and
- 2) A patio-side addition to Unit #118 – approved with stipulations and conditions.

Ellen reported that she had two issues of concern that the Committee felt needed Board action:

- 1) Some homeowners have made ECC-approved extensions outside of their building “envelope” onto Association common property. The Committee feels that these approvals were made outside their scope of statutory if not legal authority to do so. Ellen asked the Board if the ECC had the authority to allow homeowners to extend their useable property lines out over common area lands, and if so, what was the remedy for returning the use of this land after use. After a lengthy discussion, it was M/S/C to inform the people who have been allowed to make these extensions out on common areas property that if, or when they transfer their property (by sale, inheritance, or any other means), that the Association intends to recover the common property, at MDCA expense. The Board directed Tom to send each appropriate homeowner a letter to that effect. The letter will state that these past ECC decisions were made in error, the intent of the Association to correct the error, and set the parameters for re-securing and reinstating the common land back to its original developed state prior to the ECC action. The Board also directed that if any of these improved areas need maintenance prior transfer of the unit, the Association will only build the structure back to the original size and configuration. The Board directed Tom to work with our attorneys prior to sending out the letters.
- 2) There are homeowners who have made unapproved extensions outside of their building “envelope”. After another lengthy discussion, it was noted that any ECC violation was in fact a CC&R violation and that upon notice, the violators have only two options.
 - a) correct the violation.

- b) MDCA corrects the violation and bills the homeowner.

A motion was M/S/C to support the ECC in taking action to correct unapproved modifications regardless of the fact that these unapproved modifications may have happened many years ago.

Tom was tasked with identifying all instances where extensions have been made to properties outside the building “envelope” and with confirming with our attorneys that motion #1 is legal and how to best enforce motion #2.

In addition to the above actions, it was noted that the new version of the CC&R’s should address the issue of property extensions outside the building “envelope” and should associate large fines with such extensions as well as providing remedies.

ADHOC RESERVE PROJECT COMMITTEE

Bill Michaels, Committee Chair gave the Board the following progress report. The Committee, (Jeff Schwartz, Jim McFeeters, and Bill Michaels) had their first meeting on June 6, 2003 at the clubhouse. The charter of the committee is two-fold.

- 1) How to keep the cost of reserve replacement components down to a minimum, either by using different materials, bulk purchases, or managing contracts and labor.
- 2) How to spread out the costs over the upcoming years to prevent peak years with very large assessments while in other years have only small reserve assessments. In the president’s letter, (with the 2003-2004 proforma budget packet), Dick estimated that reserve assessments would be approximately \$5,000 per home for the next 10 years beginning in 2005. The Association is faced with a large shingle replacement project starting in 2005 that will cost the Association between \$1.5M and \$2M to complete over multiple years. Projects such as these are subject to many decisions each with the potential of saving thousands of dollars.
- 3) The committee has not come up with any recommendations after our first meeting, however, it will be meeting again in August and should have more to report at the next Board meeting.

GENERAL MANAGER’S REPORT

Deck and Fence Replacements

We have replaced 27 decks so far this fiscal year. We are over in our projected replacements for the year with only a few days remaining before the end of the fiscal year. There are currently 46 decks on the priority list for replacement and we have already identified most of those decks for replacement next year.

We continue to experience budget overruns in our deck replacement program due to increased costs for redwood decking, stainless steel hardware, and the added cost of rebuilding most deteriorated wind walls associated with the oceanside deck structures.

Window Replacement Project

As of June 21, 2003, the Association has installed 186 of the 218 allocated window replacements for this fiscal year.

We remain behind schedule on new window replacements as we continue to reset and reseal Milgard block frame vinyl windows and sliding glass doors installed between 1995 and 1999.

Milgard has replaced a few of these defective vinyl windows that are not of block frame construction with fiberglass-upgraded frames. Resetting vinyl windows by Association staff takes labor away from the new window installation process and continues to put management behind schedule in this program.

Hot Tub Rehabilitation

The hot tub renovation project is completed at a cost of \$5,750 in tub materials and labor, and over \$7K in new Fencing, Underpinning, Decking, and Electrical Work.

Dunes Restoration

Maintenance crews have built up 6 dune areas with driftwood to support the restoration of the westward dunes. There are 4 areas where we need to build up driftwood in the outer dune area but cannot right now because of the snowy plover nesting season. The areas that are in the process of reforming are building with wind-blown sand at a rate much greater than originally expected.

Insurance Preliminary Figures for 8-03 through 8-04

TYPE OF COVERAGE	Limits 2002-2003	PREMIUM	Limits 2003-2004	PREMIUM
BUILDING LIMITS	\$21,930,308	\$32,337.00	\$22,588,000	\$35,059.00
DEDUCTIBLE	\$25,000		\$25,000	
Liability Limits	\$1,000,000/ \$2,000,000	Included	\$1,000,000/ \$2,000,000	Included
D&O	\$5,000,000	\$2,238.00	\$5,000,000	\$2,638.74
AUTO LIABILITY	\$1,000,000	\$1,849.00	\$1,000,000	\$3,602.00
FIDELITY	\$400,000	\$984.00	\$400,000	\$984.00
UMBRELLA LIMITS	\$10,000,000	\$6895.00	\$10,000,000	\$11,546.00
BOILER & MACHINERY	\$1,000,000	\$469.20	\$1,000,000	\$469.20
REPLACEMENT COST	INCLUDED	INCLUDED	INCLUDED	INCLUDED
DIC-Earthquake	\$15,000,000		\$15,000,000	
FLOOD	LOSS LIMIT	\$41,698.47	LOSS LIMIT	\$39,097.50
DIC-DEDUCTIBLE	5%		5%	
Totals		\$86,470.67		\$93,396.44

This equates to an 8% increase overall over last years insurance premiums. Aside from the fact that this level of increase in a hard insurance market is extremely good, the overall 8% shows only the actual premium increase. Travelers Insurance Company increased our blanket policy building limits by \$657,692.00 to a maximum of \$22,588,000.00. In addition, we acquired another company truck this year, increasing our automobile insurance premium by \$1,753.00. Our liability excess insurance coverage line increased while, at the same time, our DIC (Earthquake) premiums decreased, keeping our loss limit at \$15,000,000. All taken into account, our overall insurance cost for next year increased approximately 3 to 5%.

Annual Operating Budget, Fiscal Year 2003 – 2004.

The Annual Operating Budget, as approved on April 19, 2003 by the Board of Directors was mailed to the homeowners on May 5, 2003 along with required annual disclosures and notices.

2002-03 Audit and Annual Report

Joelyn Carr-Fingerle, CPA, has submitted her engagement letter for Board review and signature to conduct the 2002-2003 Audit, prepare taxes, prepare the Annual Report to the membership, and the management opinion letter. Joelyn has already started collecting data from the bookkeeper to begin the audit process.

MONTEREY DUNES COLONY MUTUAL WATER ASSOCIATION

Special Assessment for the Development of Well #4

83 Homeowners paid for \$290,500.00 collected.
37 Homeowners outstanding for a total of \$129,500.00.

Progress Report, Well #4

- The request for the well permit was submitted to the Monterey County Environmental Health Services on 5/29/03
- Health Services responded to MDCA on 6/9/03 requiring a Coastal Development Permit prior to issuing a drilling permit.
- MDCA submitted an application for a Coastal Development Permit to the County Planning Division on 6/13/03.
- On 6/16/03 the Environmental Health Services denied a request from MDCA for a letter declaring the replacement well an emergency well for the purposes of obtaining an exemption to the Coastal Development Permit process.
- MDCA elevated the permit process to EHS management on 6/18/03 seeking an exemption for the Coastal Development Permit for emergency and safety issues.
The permit process is ongoing.

South and North Well Destruction Update

Rottman Drilling Company is still reviewing the Halliburton Energy bids for the destruction of the North and South Wells.

Water, Pool, and Spa Permit Increases

There has been a significant increase in the cost of permit fees for the water system, pool and spa. This increase was approved by the Monterey County Board of Supervisors in an emergency meeting without prior notice or input from affected agencies. Upon questioning the increases, the County Clerk apologized for the short notice but stated that the increase was necessary to keep the agency afloat during the state budget crisis.

Metering Project and Short-Term Water Outages

The Water Metering Project is completed and was close to budget.

End of Report

OLD BUSINESS

None.

NEW BUSINESS

Approve/Disapprove Audit Engagement Letter

After discussion, the audit engagement letters for both MDCA and the Water Company were approved and signed by Mary Jansing-Balگوoyen, Vice President, as written.

Funds for CC&R Rewrite

Marty Deggeller gave a brief progress report on the ADHOC CC&R Revision Committee. He stated that the Board has elected to completely rewrite our CC&Rs rather than continue to piece-meal changes into an already antiquated document. Many changes in the rewrite are statutory, while others are unique to MDCA. The Board is now at a point where it is necessary to secure additional funds to pay for a CC&R rewrite. Marty stated that the committee recommended the Board transfer the remaining operating funds, currently still in the Reserve Account, (\$12,834.21), back to the operating account and designate the transferred funds for the CC&R rewrite. It was M/S/C to transfer \$12,834.21 of operating funds currently in the reserve account to the operating account and designate these funds for the CC&R rewrite.

Terrorist Insurance Coverage

Jeff Kane, KBK Insurance sent the Association a mandatory option letter to accept or decline terrorist insurance coverage. This policy would only cover earthquake and flood damage caused by terrorism. After a brief discussion, it was M/S/C to decline the coverage.

WATER COMPANY BUSINESS

Status on Well #4

Addressed in the Manager's Report

Status on the Destruction of Wells #1 and #2

Addressed in the Manager's Report

Other Water Company Business

None.

ADJOURNMENT

With no other business, the meeting was adjourned at 12:05 P.M. The next Board Meeting will be on August 23, 2003 at 10:00 A.M.

EXECUTIVE SESSION

After the Board meeting was adjourned, the Board held an executive session. The three topics of the executive session were:

- 1) Owner Discipline,
- 2) Release of Assessment Lien, and,
- 3) Association Personnel Issues.

Respectfully Submitted,

Thomas J. Bugary

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