

**Minutes of the
AOAO Kanaloa at Kona Quarterly Board Meeting**
Friday, October 25, 2019 – 9:00am
Main Pool Lobby

- I. **Call to Order:** Bill Lamberton, President, called the meeting to order at 9:04 a.m.
- II. **Roll Call:**
Present: Forbes Burdette, Bill Dallenbach, Bill Lamberton, George Pittman, Rex Sawyer, & Steve Tanberg, Jerry Ernst
Quorum was established.
- Guests:* Castle Resorts & Hotels Members; Alan Mattson – President and C.E.O, Dean Yamamoto – V.P. of Finance, Violet Carlsberg – Director of Business Development, Dale Mustard – General Manager.
- III. **President’s Comments “The Proof is in the Pudding”:**
- a. Bill Lamberton, President, welcomed all in attendance. Quoting “The proof is in the pudding”, he noted this was in reference to all that had been accomplished over the last four years since the change of management. Many new projects have been completed and there have been significant improvements made to the grounds and building infrastructure. The Board and current Management company are in partnership and aligned with the same goals to continue enhancing the property and increasing the investment value for all Owners.
 - b. Average of 1.4% increase in maintenance fees per year since Castle took over management at Kanaloa. This is well below the average industry standard for maintenance increases year over year.
 - c. Average Owner savings since the change to Castle is \$4,000.88.
 - d. The Board has repaired or replaced much of the deferred maintenance over this same tenure.
 - e. Our new owner’s fees will now match our previous management company’s fees in 2015.
 - f. If Ownership wants the costs/value of the property to be maintained, it is critical to have a reserve that can handle anything that comes up.
 - g. The proposed increase of 10.62% this year is due to:
 - i. 100% loss of revenue in the Activity Desk Income
 - ii. A 6.4% increase in the reserve contribution. This assures the property is properly taken care of.
 - h. Discussion ensued with Ownership present. Questions were raised on the actual costs contributing to this increase. Bill replied that several factors contributed: medical benefits increased almost 10% in cost, property insurance increases, 3% increase in water bill with the recent leaks pushing us over budget, in addition to the activities desk loss of revenue income. Bill stated more discussion on this subject would ensue following the Committee Reports.
- IV. **Approval of the July 26, 2019 Minutes**
Bill Lamberton, President, asked for approval of the January 26th, 2019 minutes.
A motion was made by Steve Tanberg to approve the minutes. George Pittman made a motion to change the minutes in section V., b., iii., changing the reference from building

26, to 20. The motion was seconded by Bill Dallenbach to approve the minutes as adjusted by George. The motion carried unanimously.

V. Committee Reports

a. Treasurer's Report: Steve Tanberg

- i. Steve Tanberg reported that he will be reviewing the key financial data, as detailed in the handout passed out to all in attendance. He noted it is also always available to any Owners not in attendance.
- ii. The Operating Fund Balance, comprised of immediately available investments in addition to the checking account, is \$194,065.41
- iii. The Regular Reserve Account, which is for long-term recurring projects, has a balance of \$1,443,312.71
- iv. The Special Reserve – ADA Compliance balance is \$55,956.23
- v. The year-to-date Operating Fund Surplus is a negative surplus of -\$61,647.31
- vi. Other income received, detailing income from late fees, interest, and the any lost front-gate cards, totaled \$1,473.21
- vii. Reserve Account Interest totaled \$8,559.79
- viii. Income from the Castle Rental Program totaled \$9,225.00
- ix. General Assessment to Operating is \$424,891.62, and General Assessment to Reserves is \$77,197.89.
- x. Among the favorable variances was Building, at \$8,442 under budget for savings of 46%. Steve noted this is due to buying supplies on an as-needed basis.
- xi. There was a 18% savings in Salaries for the Manager, or \$6,925, because of a period where no General Manager was on site.
- xii. Salaries in Grounds had a 3% savings of \$4,937 due to a vacant position in January and February.
- xiii. Termination of three employees and an adjustment of vacation accruals led to a savings of \$16,598, or 87% for the year.
- xiv. For legal fees, the Association is \$5,355 under budget year to date for a 79% savings.
- xv. The Association is \$17,943 or 43% under budget for the year for tree trimming, window washing and pump services. Some of these were not performed because of the transition of the General Manager position but will be performed by the end of the 2019 year.
- xvi. The Board of Directors travel is also under budget at 13% for \$2,800 as not all Board members used their full travel allowance.
- xvii. For unfavorable variances, due to the termination of the Activity Desk Contract, there will be a loss of \$36,000 for the year, as the possibility of a new contract appears slim.
- xviii. Payroll taxes and benefits are 15% over budget for \$14,606 due to new employees opting for insurance rather than taking the incentive.
- xix. Water is over budget by \$27,102 year to date, or 32%, due to a rate increase and an increase in usage. Three irrigation leaks were discovered that contributed greatly to this and have since been repaired.
- xx. Cable is \$8,442 or 4% over budget due to a change in Spectrum billings.
- xxi. Repairs and Purchases is currently 13% or \$3,756 over budget, however this will be billed-back to Owners for having done the work inside their units.
- xxii. Salaries in Maintenance is 12% over budget, amounting to \$26,147. This is due to the carport project and bonuses, which were about \$5,000 over what was budgeted.
- xxiii. Salaries in Security is also 12% over budget for \$10,835, mostly due to an additional position so we can have security coverage during the day.

- xxiv. Recovery Work Orders were 21% under budget for what was expected from work-orders and owner project work, amounting to a loss of \$13,407. This was partially due to a higher occupancy of units limiting the ability of the maintenance team to complete projects.
- xxv. Ownership delinquencies have greatly improved. The Association is now charging legal fees directly to the Owner, in addition to interest. No units are 30-days late. Two units are over 60-day's late for \$1,131.34, and an additional two units are 90-days late for \$97.50. Three units are more than 90 days late for \$9,221.61, bringing the total delinquency to \$10,450.45
- xxvi. The doubtful account balance is \$2,092.00, with the likely recoverable amounting to \$8,358.45.

b. *Grounds and Safety: George Pittman*

- i. George Pittman noted over the last several years palm trees on property have been lost to storms, age, and other natural causes. A few months prior to this meeting, the team started working to take care of the older ones and replace three to four of them. The work requires grinding the stump out and planting the new tree in the same space.
- ii. The area around carport 24 has always been a problem. Palms have been planted but it still looks sad and tired, the team is working to plant sod and add various other plants to the area.
- iii. Grounds is working to try and soften the unsightly look of the HECO boxes and is adding plants around them currently for buildings 20 and 28.
- iv. The spider lilies by the fairway are being aggressively trimmed back to avoid any mosquito breeding.
- v. There have been 2 to 3 water leaks every quarter over the last year. They are generally failing in the pipe fitting, not on the actual pipe, and is caused by the turbulence of the water making the turn in the pipes and wearing over time.
- vi. Donnie replaced the entry stairs by unit 1904. It was noted that the stairs are slowly rotting overtime and becoming unsafe. The team will continue to monitor and address piers as needed.
- vii. The posts on the retaining wall by the ocean were installed in the late 90's, posts are starting to rust at the base. The Grounds team is creating a program to replace all of these posts over time.
- viii. The carport project started almost a year ago, with the goal to paint all carports within the year. This was before it was discovered that many had rot and/or termite damage that also needed to be addressed. Currently the team is working on the carport for building 33 and expect to finish the project by the end of April 2020. The goal is to tackle 2 per month. Dale will continue to notify Owners of the carport schedule. George encouraged Owners to look in their closets in the carport and remove everything not needed.
- ix. Almost all piers have been completed and restored, with 10 more piers left to complete and additional block work as well. This expense has been allocated in the reserve at \$5,000 a year.

c. *Investments: Rex Sawyer*

- i. The value of the Kanaloa Reserve Account at the close of the third quarter was \$1,499,268.94. Included in this amount were CD's totaling \$1,330,000, cash reserves in the UBS Bank Business Account for \$148,983.13 and accrued interest from the CD investments of \$17,409.50.

- ii. The CDs for \$1,330,000 were invested in 10 CDs from 9 different banks. No bank investment exceeded the \$250,000 FDIC insurance limit. Maturities ranged from November 2019 to May 2020. Interest rates ranged from 1.95% to 2.60%. Interest rates on brokered CDs continue to decline and the interest returns on all the maturities from 3 months to 12 months was 1.75% and the bank offerings were very limited.
- iii. Subsequent to the last meeting, the Association purchased 2 Bank CDs to reinvest the proceeds from two maturing CDs. \$100,000 was invested in a 2-month CD with Valley National Bank in New Jersey with an interest rate of 1.95%. \$170,000 was invested in Investors Bank located in Short Hills, New Jersey with an interest rate of 1.95% with a 3-month maturity. The purchase of shorter maturity CDs was a departure from our customary purchase of 12-month CDs.
- iv. Prior to the next meeting we have 5 CDs maturing from November 16 to January 17 with a base amount of \$620,000. The federal reserve at it's October meeting next week is expected to lower the discount rate by ¼ of one percent. The offering of Bank CDs availability and rates may be affected which will influence the most attractive place for the Association to invest the maturing CDs with new CDs as each matures. It is our plan to reinvest these CDs and to leave the \$149,000 of funds at the UBS Business Bank available for funding reserve projects as completed. This fund is currently paying around 0.34%.

VI. Managers' Report: Dale Mustard

- a. Dale thanked the property team, Owners, and the Board for a warm welcome, and noted she has been on property since April of 2019.
- b. No major staffing changes in Maintenance or Ground since the last meeting. Leesha is still out on medical leave indefinitely awaiting a kidney. Jenny, who recently started at the Front Desk, is out on Maternity Leave. Her daughter Abigail Darleen was born on Sunday, October 13th. Please send your warm congratulations to Jenny and her family.
- c. Welcome to Vicki and Claravel at the Front Desk, and Molly in Housekeeping.
- d. There will be an AOA dedicated website and calendar for all Owners to access. This site will provide information on any upcoming projects, water shut offs, etc. Once this is built and made active, Dale will let Owners know via the weekly email.
- e. One of the requirements for the new STVR Registrations by Hawaii County is that all rental units must have a designated parking spot available. Please make sure that your car is not stored on property when not in residence. Cars parked in non-marked spots are limited to park for no longer than 5 days. These new requirements will both be added to the Bylaws.
- f. Randy has done and continues to do an amazing job with replacing the wooden signposts across the property. This includes creating the sign engraving plates with the building numbers, cementing the post into the ground and the connecting electrical fixtures to the power source. He is almost completed around the property.
- g. The chain link fence has rusted in several places, and Kyle watches over the chain links posts in order to remove and replace when needed.
- h. Ian from Kohala Roofing is the contractor who completes our roof work here at Kanaloa. It was discovered that the copper flashing is thinning, and for some the flashing it is completely worn through. Recently repaired are both the 700 and 1800 building. For building 2100, the flashing is worn, and the fasteners are slipping out due to heat, age and wind. This is also the case with a portion of the 3100 building. Work on both buildings 3100 and 2100 is scheduled next.

- i. For roadside curbing, the Association is receiving assistance from Ricci Bezona on possible direction to take in the repair of the property curbing. The next meeting is scheduled with Jade of Island Asphalt for a free quote.

VII. Action Items

- a. Bill Lamberton, President, asked for approval of the 2020 Budget. Discussion ensued. Several concerns were raised by Owners in the audience regarding the 10.62% increase in dues for 2020. Bill re-stated the reasons behind the increase and noted the Board worked very hard to limit this increase as much as feasibly possible.

Forbes Burdette made a motion to defer the acceptance of the 2020 budget until it is reviewed one final time by the Board. Steve Tanberg seconded the motion, and it passed unanimously.

VIII. Discussion Items

- i. Clarification of washing machine leak hose responsibility.
 1. Steve Tanberg stated that there have been three different instances where units have been damaged, at no fault of the Owner. Insurance companies are then refusing to pay, making it a very costly situation for the Owners involved.
 2. Insurance responsibility for water leakage into another unit.
 - a. It is the Boards responsibility, on behalf of all Owners, to make sure the property is insured in case the AOAO or an Owner denies responsibility.
 - b. In the By Laws, it states that the Owner that caused the leak is ultimately responsible for the associated damage.
 - c. The State also permits the Board to enter units to correct an immediate issue inside the unit.
- ii. The Owner of Unit 2701 inquired on the status of the restaurant by the Ocean Pool. Steve Tanberg responded noting that they had put the concept out to vendors, but no bids were submitted. As soon as the Board finds an interested vendor they will look further into this option and property enhancement.
- iii. Bill ended the meeting stating that on the positive note, all Owners here at Kanaloa have a significant asset and property values are continuing to increase. All should be pleased at how well the property has been taken care of!

IX. **Adjournment:** Bill Lamberton, President, adjourned the meeting to break for Executive Session at 10:34 a.m.

X. **Executive Session:** Bill Lamberton, President, called the Executive Session meeting to order at 11:00 a.m.

- a. The Board extensively re-reviewed the budget and lengthy discussion ensued.
- b. Bill Lamberton adjourned the Executive Session at 12:28 a.m.

XI. **Regular Session:** Resumed at 12:30 a.m.

a. Action Item:

- i. Bill Lamberton, President, asked for approval of the 2020 Budget.

Forbes Burdette made a motion to accept the 2020 Budget as proposed, with a 10.62% increase in dues. Steve Tanberg seconded the motion, and it passed unanimously.

- XII. It was agreed that a letter of explanation on this decision would be sent to all Kanaloa Owners to further detail the reasons behind the increase and confirm the new budget for 2020.
- XIII. **Next Meeting, Annual: Friday, January 31, 2020: 9:00am.**
- XIV. **Adjournment:** Bill Lamberton, President, adjourned the meeting at 12:44 p.m.