

**Minutes of the
AOAO Kanaloa at Kona Quarterly Board Meeting
Friday, January 25th, 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, Jerry Ernst, Bill Lamberton, George Pittman, Rex Sawyer, & Steve Tanberg. Quorum was established.

Guests: Castle Resorts & Hotels Members; Robin Graf – VP of Operations, Dean Yamamoto – VP of Finance, Stephen Hicks – General Manager.

III. **President's Comments:**

Bill Lamberton, President, welcomed all in attendance. He noted that the Board had just recently completed a walkthrough of the property, and there were many exciting and positive changes to the property. In particular, the carports are being refurbished due to termite damage and other previously unseen items, and those that have been completed are in better condition than originally built. The landscaping at the corner by the adult pool has also seen improvements, and the Board is working to assure areas are updated that previously did not receive as much attention. Other improvements will be explained in more detail in the following Committee Reports.

IV. **Approval of the October 26th, 2018 Quarterly Board Meeting Minutes:**

Bill Lamberton, President, asked for approval of the October 26th, 2018 minutes.

A motion was made by Jerry Ernst to approve the minutes. The motion was seconded by Steve Tanberg and the motion carried unanimously.

V. **Committee Reports**

a. *Treasurer's Report: Steve Tanberg*

- i. Steve Tanberg reported that he will provide the key financial data, without drilling down to the exact penny. He noted a handout was passed out to all in attendance and available to detail the full financial report.
- ii. The Operating Fund Balance, comprised of immediately available investments in addition to the checking account, is \$276,989.
- iii. The Regular Reserve Account, which is for long-term recurring projects (like re-paving the driveways), has a balance of \$1,412,898.
- iv. The Special Reserve – ADA Compliance balance is \$45,123.
- v. The year-to-date Operating Fund Surplus is \$151,430.
- vi. Other income received, detailing income from late fees, interest, and the any lost front-gate cards, totaled \$5,310.
- vii. Income from the activities desk, which will unfortunately end until a new company is found to replace, totaled \$9,000. Income from the Castle Rental Program totaled \$8,955.
- viii. General Assessment to Operating is \$430,871, and General Assessment to Reserves is \$71,218.

- ix. Steve noted that every year there is a budget followed, and on a monthly basis the Board reviews to assure pace to budget and all expenses are within reasonable variances.
- x. Among the favorable variances was the \$5,000 in other income from the sale of the property truck.
- xi. Watchman is another favorable variance. The position was budgeted for \$1,026 a month, and we have not needed a watchman due to the full-time, salaried, security team.
- xii. For cable/internet, in December there was a favorable variance of \$626 due to Stephen Hicks' renegotiation of the contract with Spectrum. Long term this will be a great savings for the Association.
- xiii. The pool expenses were favorable, which appears to be mostly due to the new chemical and quality management system recently implemented at the pools. The savings totaled \$1,179, for a favorable variance of 64%. Steve noted this is a good example of proactive management and thanked the Castle team.
- xiv. Recovery work orders reflects what is billed back to the maintenance department for completing work inside the units. It has been budgeted based on historical trends and data from the property, at \$8,850 for the quarter. Many Owners have been taking advantage of the skilled team on property, leading to a positive variance to budget of \$20,342, or 130% increase in payback to the Association.
- xv. One of the only two unfavorable variances is in salaries for maintenance at 12% over budget. This was due to the fact the Association needed to hire an additional worker to assist in the refurbishment of the parking structures. A temporary employee was hired, with the understanding that a full-time maintenance employee is still needed for the project.
- xvi. Even though a watchman is not needed at this time, there was an unfavorable variance in security salaries. Due to the fact there were several employees on leave and holiday, overtime accrued for an additional \$4,455, or 17.6% over budget.
- xvii. Ownership delinquencies have greatly improved. The Association is now charging legal fees directly to the Owner, in addition to interest. One unit is 30-days late, who owes for a legal fee. Two units are over 60-day's late for \$2,212, and an additional two units are 90-days late for \$1,126. Three units are more than 90 days late for \$53,426.
- xviii. Steve noted that some of these delinquencies are likely recoverable. The doubtful account balance is \$41,233, with the likely recoverable amounting to \$13,497.

b. *Grounds and Safety: George Pittman*

- i. George Pittman reported that Darren left the team in November, which was a loss for the Association as he will be missed.
- ii. There have been a lot of improvements made recently, with one of the accomplishments to re-landscape the previously overgrown triangular area by the adult pool. New plantings and sod have been added to the area to improve the aesthetics.
- iii. There is a small area by building 26 that has been difficult to grow anything, however recently new sod and plants have been successfully added.
- iv. A lot of work and additional planting has been done by carport 24. Topsoil will be added and then new plants to dress-up the area.
- v. Over the years the property has lost numerous palm trees through various storms and other natural causes. The team is now starting to investigate areas that need new trees and will start to replant them over the next several months. Currently there are 4 palm trees that will be proposed to plant on property, but this is an ongoing effort to replant and even remove trees where needed.

- vi. All of the hala trees have been removed (with a couple of exceptions), which took the grounds team almost one full year to complete.
- vii. A new lawnmower is being purchased and is scheduled to arrive in the next several weeks. It is primarily being replaced due to noise, so the old lawnmower will have the engine rehailed and kept as a spare.
- viii. There have been very few water leaks this last quarter, with only a few on the fairway side.
- ix. For safety issues and compliance, all fire extinguishers have been checked and verified around the property.

c. *Investments: Rex Sawyer*

- i. The value of the Kanaloa Reserve Account on December 31, 2018 was \$1,456,725.29. Included in this amount were CDs totaling \$1,180,000, \$280,066.61 in the UBS Bank USA Business Account, \$7,661.63 accrued interest from the CD investments, and \$11,002.95 from monies due from the Operating Account will be transferred to the Reserve Account. \$250,000 in the UBS account was from matured CDs which was used to purchase new CDs after December 31, 2018.
- ii. The CDs totaling \$1,180,000 was invested in 9 CDs at 8 different banks. No bank investment exceeded the \$250,000 FDIC insurance limit. Maturities were from January 2019 to November 2019. Interest rates ranged from 1.75% to 2.70%. 12-month CD rates are currently around 2.5% which is about 10 basis points less than 3 months ago.
- iii. Subsequent to the last meeting we purchased 5 CDs, one from surplus funds in the liquid account and 4 from maturing CDs. \$100,000 was invested in a JP Morgan CD at 2.65% maturing November 16, 2019. \$100,000 was invested in a JP Morgan CD at 2.7% maturing November 30, 2019. These JP Morgan 12-month CDs are both callable in May 2019 resulting in a possible 6-month investment but are paying a higher interest rate than 12-month CDs that are non-callable and considerably higher than 6-month CDs.
- iv. \$200,000 was invested in a 12-month CD with Morgan Stanley at 2.6%, maturing January 10, 2020. \$50,000 was invested in a 12-month CD with Investors Bank in Short Hills, New Jersey, maturing January 17, 2020. \$235,000 was invested in a 12-month CD with U.S. Bank, headquartered in Minneapolis, Minnesota at 2.55% maturing January 23, 2020.
- v. No surplus funds are available to invest at the current time. A CD for \$150,000 matures February 6, 2019 and a CD matures March 26, 2019 for \$100,000. The Association will invest \$150,000 in a CD on the February 6 maturity date.

VI. **Managers' Report: Stephen Hicks**

- a. Stephen thanked the team, Owners, and the Board for the ongoing support and approved budget in order to complete all projects necessary for property upkeep.
- b. The property maintenance team was acknowledged and thanked for the additional revenues generated for the Association, which for the year-end attributed to more than \$81,000 over-budget in interior maintenance, unit repair and remodel work.
- c. For the second time in three years, the Kanaloa maintenance team has received a Castle Resorts company-wide award for team member of the year. This year, Ken Albert won the award for Maintenance Team Member of the Year for all Castle properties! He is extremely talented, works on a multitude of projects, and is a true asset to the team. Congratulate Ken the next time you see him!

- d. There are several different on-going property projects:
- i. The 10th carport is currently being completed.
 - ii. There have been several water issues over the last year, so in the middle of 2018 all water pressure valves were tested for all buildings. Quite a few of these had pressure readings that were too high at 125-130 PSI, where typically the pressure level should be around 80. From the main water line coming into the property, the pressure is approximately 150 lbs. 13 of the pressure regulators have been replaced and have been set at 75 PSI. There have been no concerns registered from lack of water pressure in those units. The plan for the next 12-months is to have all pressure regulators replaced.
 - iii. The BBQ Grill at the Ocean Pool has been replaced.
 - iv. 19 of the 100 different directional signs located on the light posts have been replaced. The project is being led by Randy in the maintenance department and will likely take over a year to complete.
 - v. There are approximately 148 entry staircases around the property, with each building having a minimum of 4. 15 have been replaced thus far, and all are scheduled to be completed over the next year.
 - vi. Darren in the Grounds Department left the team in November, and Romnick has been acting as a lead supervisor since Darren's departure.
 - vii. For security, there will be an additional camera at the front gate, in addition to dual camera coverage for the Groundskeeping office.
 - viii. Security gate procedures have been reviewed with the front desk and security teams to assure all processes are being followed. With the camera system, the front desk can see who is driving into the property.
 - ix. Stephen announced Castle had promoted him to Area General Manager, in which he now oversees over 100 rental units. The additional responsibility has no financial implication to the Kanaloa Association or property, this is entirely separate and an addition to the salary currently provided.

VII. Action Items

a. *Bill Lamberton, President, read and/or discussed the following Action Items for approval by the Board:*

- i. The Board has been working on bids for solar installations for the public areas, with the first bid received several years ago quoted at \$500,000. That was not inclusive of batteries, and just included the lights around the pools and common areas. To add batteries, the quote increased an additional \$500,000, to total an investment of approximately \$1,000,000. Two years later, a new bid was received, bringing the total (inclusive of batteries), to approximately \$600,000. The Board has been investigating different options over the years to provide Ownership. It was noted that this project will be extremely disruptive to the landscape, roofs, and daily operations, and it is unclear at this time who would be responsible for any roof leaks after installation, cleaning the panels, removing panels, etc. Given the many obstacles, the Board concluded that a consultant is needed to cover all the minutia details and questions, ultimately to create a recommendation based on the property needs. A quote from a consulting firm for \$9,700 was received to move forward and create a proposal/recommendation for the cost any solar work at Kanaloa. At the upcoming Annual Meeting, the proposal and recommendation to move forward with the \$9,700 cost, will be presented to Ownership to ultimately decide whether to move forward further exploring the solar study. If the

Ownership would like to move forward with a solar project, it is important to note a Special Assessment will need to be voted on and passed, in addition to approving the solar project and investment needed.

- ii. Approval for the tree removal in front of building 32, with a bid for \$1,900 to complete the work.

A motion was made by Bill Dallenbach to approve the \$1900 cost to remove the tree in front of building 32. George Pittman seconded the motion, and the motion carried unanimously.

- iii. As George noted in his report, with the palm trees that have been removed around property over time, the Board has investigated adding at least 4 new palm trees on property to refurbish the grounds. The approximate cost per palm is \$150.00, totaling \$600 for the 4 that are needed.
 1. *A motion was made by Steve Tanberg to approve the \$600 total cost to add 4 palm trees to the Kanaloa grounds. Rex Sawyer seconded the motion, and the motion carried unanimously.*
- iv. Unit 2004 is requesting approval from the Board to move forward with the window installation for the master bathroom. This has been approved many times before as it is a standard installation between the sink and the bathroom area. The Board will not be voting on every single request for this window installation and moving forward will refer to these meeting minutes for any additional approval needed for this from other unit Owners.
- v. There was a request for approval of the installation of an A/C Compressor from unit 2506. This is another standard request with the compressor located under the stairs, that the Board has approved many times. Like the window installation above, the Board wanted to assure it is also reflected in the minutes to avoid voting on each A/C Compressor installation request.

VIII. Discussion Items

- i. Bill Dallenbach referred to the refurbishment of the carports as was briefly discussed in both George Pittman's and Stephen Hicks' report. Ken has developed the mechanism and schedule to complete this project with Robert. Within the next year, all the carports will be completed.
- ii. The water damage in building 15 has been extensive. It has been difficult to find the leak, and now have found it resulting from the roof, making this an Association cost and insurance claim, not an individual unit Owner cost. The total deductible assessed to the Association is \$10,000 for this claim.
- iii. Stephen Hicks I be laminating and putting together a list for the office and Owners of all the original items on the PBX. Currently, this is being handed out with all parking passes. The Board wants to assure all have a laminated copy of this list.
- iv. Steve Tanberg noted that recent Bylaws were passed as a result of the recent change in State Law. In particular, the State allows each Association a specific time period in which they can fine an Owner that is in violation of the House Rules, Bylaws, etc. This new State ruling has now been reflected in the Kanaloa Bylaws. The Board believes it is important to have Owner input on a fine policy, thus requiring Ownership approval for any policies developed. This will be presented at the next Annual meeting and can only pass with a 50% approval rate.
 1. The proposed Owner fine policy for any violations is below:
 - a. Written or verbal warnings will always be issued before a fine is imposed.

- b. Owners will not be fined for actions of registered renters staying in their unit. Such registration will be at the Front Desk and include supplying a valid credit card to Management employees.
 - c. The amount of the fine will be \$100 per violation. Additional charges will be assessed for reimbursement for any expenses incurred by the AOA as a result of the violation.
 - d. Owners wishing to appeal a fine may write a letter to the Board containing any mitigating circumstances or reasons the fine should not be imposed.
2. This proposed fine policy will be voted on at the next Annual Meeting.
- v. Stephen Hicks discussed a proposal received from an Owner to have a Tennis-Pro on site and available for Owners and Guests at the tennis courts. The Association is still awaiting a written proposal on this to fully detail all the logistics of the Tennis-Pro. More information will be provided at the next meeting.
 - vi. Bill Lamberton stated \$10,000 would be expensed out of the Reserve Account for new pool furniture this year, primary for cabana furniture, mostly tables and chairs.
 - vii. There are 18 more support pillars left to be repaired/replaced. This project has been on-going for three years and will be completed by the end of this first quarter 2018. The total cost for the support pillar repair was approximately \$25,000, compared to the \$27,000 budgeted cost.
 - viii. He'eia Bay Forever is a wonderful non-profit group that is dedicated to the conservation of He'eia Bay. This organization has spent countless hours cleaning up trash and landscaping the area. Previously there were legal concerns for any Association involvement with this project. However, the Board worked with this non-profit to come up with a solution so donations and additional assistance in the conservation of He'eia Bay can be provided by the Association. Unfortunately, Kamehameha Schools Trust Managers have recently placed locks on any access to the bay, making it very difficult to continue any work. The President of the Non-Profit, Alice Ray, has asked Ownership and the Association at Kanaloa to write a letter or call this Trust to ask they permit the Non-Profit to continue doing work at He'eia Bay. The letter from Alice Ray and the Non-Profit Organization detailing all the challenges and request for action has been provided to all Owners in attendance.
 - ix. The activities desk has been a profitable operation for the Association for some time, but with the decline of timeshare interest and investments, the activities desk run by these organizations is also now not as profitable. Stephen Hicks is continuing to search for a replacement, but thus far there are no companies that are willing to pay the rent due to the lack of tour business received.

IX. Executive Session

X. Next Meeting, Annual: Friday, April 26, 2019: 9:00am.

XI. Adjournment: Bill Lamberton, President, adjourned the meeting at 10:35 a.m.