



HAMILTON COVE
HOMEOWNERS ASSOCIATION

Norris J. Bishton, Jr.
President
6701 Center Drive West
Suite 925
Los Angeles, CA 90045
310 337 4866

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To All Owners,

This will be a long letter. Its purpose is to bring everyone up to date. The last eighteen months have been a challenge.

PANDEMIC

We survived the pandemic. Our employees came to work each day and complied with the various orders applicable to Hamilton Cove. They screened everyone entering including themselves. They wore masks. They cleaned public areas at the risk of being infected. They did these things pre-vaccinations. And when vaccinations became available, they all became vaccinated. We complied with the quarantining rules and properly compensated employees dealing with COVID problems. While some employees became ill, no employee died. I cannot say the same for my businesses or some of the businesses that are clients of my law firm. I lost one employee. One client lost six employees.

We followed the sometimes confusing COVID 19 Rules. Generally, everyone was accepting of the closures we had to put in place. We protected the Association from liability. We are glad that it is over.

OWNERSHIP

We purchased the fee in 2010. Sixty six Owners did not exercise the option to purchase the fee interest in their Units at that time, instead participating in the 15 year Master Land Loan. I am happy to report that of the 66, 56 have exercised their option and only 10 Owners currently holding a sublease interest remain.

Five single family residences have been completed on the Remaining Land and a sixth will be occupied shortly. This will bring total membership to 191.

COLLECTIONS

We were in dread when the pandemic hit, that Owners would be hard pressed to pay their monthly assessments. The opposite happened. As of May 31, 2021, only three Owners were 90 days behind, none are 120 or more days behind. The Officers and Board thank you for this achievement.

PPP LOAN

The Association obtained a PPP Loan totaling \$203,433 which is in the process of being forgiven. This is what permitted the Board to lower the monthly assessment to \$885 in July 2020, and to continue that amount through June 30, 2021. The Association was not eligible for the second round of PPP Loans.

INSURANCE

Insurance is the Association's largest costs.

The Association's Insurance Broker, Bob Hessler, reached out to every market that might write the Association's property and liability insurance and he provided a detailed list of carriers who bid or declined to bid to the Board. Property Insurance took a huge leap this year because of the massive wildfires and the economic effect of the pandemic. Also influencing the cost of property insurance is the CC&R requirement that the buildings be insured for their full replacement value, that is the cost of rebuilding the Project at the prices charged on Catalina Island. Such prices are higher than mainland

prices. This is a feature that lenders look for when financing or refinancing Units. In effect, the insurance value of the buildings goes up as replacement costs go up, which has been the case. The following is a history of insurance costs for the current year and the past four years:

	2021	2020	2019	2018	2017
Primary Property	\$222,075	\$196,224	\$177,470	\$173,998	\$173,998
Excess Property	\$64,782	\$58,371	\$53,441	\$50,943	\$24,345
Excess Property	\$63,450	\$73,155	\$63,574		\$24,603
Excess Property	\$52,875	\$31,500	\$27,050	\$45,729	\$45,729
Excess Property	\$79,313	\$24,875	\$22,156		
SUBTOTAL	\$482,494	\$384,125	\$343,691	\$270,670	\$268,675
INCREASE FROM PY	26%	12%	27%	1%	1%
INCREASE FROM 2012	147%				
Auto	\$12,262	\$12,291	\$10,066	\$8,814	\$8,780
General Liability	\$33,196	\$33,018	\$34,353	\$33,470	\$33,470
Umbrella Liability	\$17,654	\$13,310	\$11,515	\$10,559	\$10,559
D&O	\$7,211	\$6,711	\$7,460	\$6,695	\$6,712
TOTAL	\$552,818	\$449,454	\$407,084	\$330,208	\$328,196
INCREASE FROM PY	\$103,364	\$42,370	\$76,877	\$2,012	\$5,004
INCREASE FROM PY	23%	10%	23%	1%	2%
INCREASE FROM 2012	126%				

The increase for 2021-2022 increases costs by \$559 per Owner or \$47 per month. In 2012, Property and Liability Insurance cost the Association \$244,937. In 2021, the cost was \$552,818. Similar increases have occurred for Workmen's Compensation Insurance and Medical Insurance.

BUDGET

Faced with an uncertain future, concerned about the effects of the pandemic and fearing a huge increase in property insurance costs (which came to pass), the Board approved a budget for 2021 only through June 30, 2021. The Board has now approved a budget for the full year. Two costs drive the budget. Payroll and Insurance costs are 76% of the budget. Insurance is \$843,000 and Payroll is \$675,000. They do not go down.

2021 BUDGET			
	Description		CLASS III
Acct No	Monthly Assessment	185 UNITS	5 UNITS
	185 UNITS 6 MO \$885 6 MO \$990		
	CLASS III 6 MO \$650 6 MO \$725		
		FULL YEAR	FULL YEAR
INCOME			
4000	Assessment	\$2,081,250	\$41,250
4002	Earthquake Ins Assessment	\$89,295	
4007	Sublease Rent (MLL)	\$75,000	
4010	Late Fees and Interest	\$0	
4015	Preferred Mooring Fees	\$25,500	\$671
4025	Administration Fees		
4150	Vending Machines	\$300	\$8
4035	Full size vehicle parking fee	\$6,000	\$158
4040	Second Cart Parking fee	\$6,500	\$171
4045	Rack Storage Fee	\$1,250	\$33
4050	Boat Storage Fee	\$5,500	\$145
4055	Class III Assessment	\$41,250	
4150	Interest		
4175	Rental Income	\$0	
4176	Verizon Lease	\$21,500	\$566
4177	Massage Room Fees	\$300	\$8
4200	Refunds		

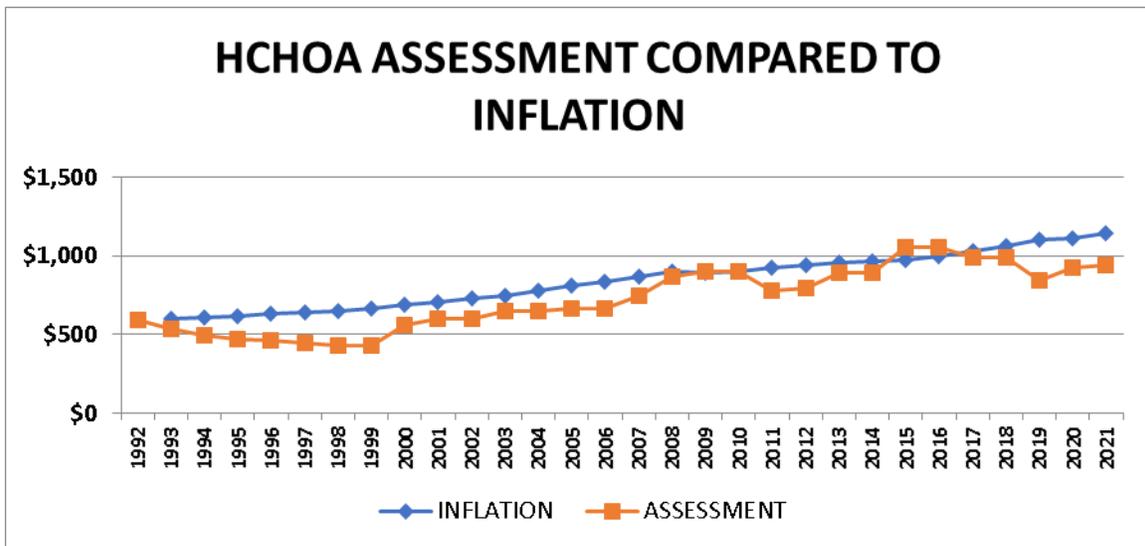
4875	Prior Year Carryover	\$161,000	\$4,237
4950	Other Income		
TOTAL INCOME		\$2,514,645	\$47,246
EXPENSE			
7050	Appraisals	\$0	
7070	Auto Expense	\$12,000	\$316
7110	Bank Charges	\$500	\$13
7180	Computer Support	\$500	\$13
7250	Dues and Subscriptions	\$200	\$5
7292	Fees/Penalties		
7294	Freight	\$3,000	\$79
7295	Functions And Meetings	\$3,500	\$92
7296	Golf Course etc. supplies	\$2,500	\$66
7329	Insurance Earthquake	\$89,295	
7330	Insurance, general	\$553,000	\$1,421
7331	Insurance, group health	\$178,000	\$4,684
7332	Insurance, workers comp.	\$112,000	\$2,947
7334	Janitorial Supplies	\$20,000	\$526
7335	Internet Site	\$3,000	\$79
7340	Landscaping/Groundskeeping		
	Total	\$15,000	\$395
7390	Legal and Professional		
	Total	\$42,500	\$1,118
7395	Lift Station		
7397	Mooring Fees	\$73,000	\$1,921
7470	Office	\$4,300	\$113
7480	Outside Services		
7489	Pest Control	\$7,000	\$184
7490	Pier and Dock	\$36,000	\$947
7530	Postage	\$1,000	\$26
7540	Reproduction and copying	\$4,350	\$114
7610	Repairs and Maintenance		
	Total	\$51,000	\$1,342

7630	Fire Alarm System	\$20,000	\$526
7635	Supplies		
	Total	\$32,000	\$842
7650	Licences and Permits	\$1,000	\$26
7690	Payroll Taxes	\$50,000	\$1,316
7692	Payroll Acct Fee	\$1,000	\$26
7695	Payroll		
	Total	\$675,000	\$17,763
7701	Property Taxes	\$11,000	
7750	State Taxes	\$1,000	\$26
7770	Telephone	\$58,000	\$1,526
7780	Uniforms	\$4,000	\$105
7810	Utilities		
	Total	\$172,500	\$3,355
7990	Miscellaneous		
8000	Transfer to Reserves	\$200,000	\$5,263
8025	MLL Payment	\$75,000	
9500	Provision Fed Tax	\$2,500	\$66
	TOTAL EXPENSES	\$2,514,645	\$47,246
	NET INCOME	\$0	\$0

The column for Class III is for information purposes. The amount they pay is included in the main budget as highlighted in yellow.

The monthly assessment for the original 185 Units for July 1 through December 31 will be **\$990 per month** and for Class III, the single family residences on the Remaining Land, **\$725 per month**.

The Owners took control of the Association at the end of 1991. The monthly assessment has not kept up with inflation:



The building collapse in Surfside, Florida provides a lesson. It was a condominium association just like ours. The board tired to keep the assessment down and did not face up to major maintenance issues.

The last of our original buildings was built in 1991, 30 years ago. We are on an ocean shore with all of the problems that creates. We have maintained and will maintain Hamilton Cove. That costs money.

FINANCING AND REFINANCING UNITS

Financing and refinancing Units has always been a challenge. Only 18 of the 190 Units are occupied full time. One hundred seventy two Units are second homes, always harder to finance or refinance. If that was not enough of a problem, Owners can engage in Short Term Renting which causes Hamilton Cove to be regarded as the dreaded condotel.

I am personally involved in every financing and refinancing. I prepared the detailed certifications. I provide the financial information requested. I answer follow-up question after follow-up question. Lenders now want financial statements and lately proof of the amount not only in Reserves but proof that 10% of the assessment is going to Reserves. Some want a list of all Owners who own more than one Unit. 20% of the Units are owned by people owning more than one Unit. Most want detailed insurance

information. Recently I had to provide a personally signed copy of the budget. We have created a page on our website just For Lenders.

Apparently, Freddie Mac and Fannie Mae think we are a condotel, at least lenders tell me this. Hamilton Cove is not a condotel. This is driven by Internet advertising by Owners who Short Term Rent.

With regard to any aspect that might result in Hamilton Cove being characterized as a condotel the following are the facts:

1. Hamilton Cove is **not** licensed as a hotel or operated as a hotel.
2. There is **no** registration desk.
3. The Association does **not** provide any cleaning service, central telephone service, central key system or other hotel like service.
4. There is **no** rental program or rental pool.
5. The Association receives **no** revenue from Short Term Renting
6. Hamilton Cove is **not** transient in nature. Units were rented for less than 20% of the available nights in 2019.
7. There is **no** commercial space at Hamilton Cove.
- 8 Owners who engage in Short Term Renting must have an individual located in Avalon, California available 24/7 whenever renters are present to take charge of or control the renter's actions.

RESERVE FUND

We are required to reserve for the repair or replacement of major components having a life of less than 30 years. Every three years, the Association must have its Reserve Fund reviewed by a third party. That occurred in 2020. The Full Report is available on the Association's website. Per the report fully funded our Reserve Fund should be \$2,185,090. As of the date of the report our Reserve Fund was \$1,251,250. We are 57.26% funded. As of May 31, 2021, our Reserve Fund was \$1,263,494.

ROADS

In 2010 when we acquired the fee, we negotiated with the Santa Catalina Island Company and Hamilton Pacific, LLC, the developer of the Remaining Land that they would repave the road from the Casino to our Security Gate by a date certain. While it took some effort by the Board, we were able to

get the road finished **at no expense to the Association.** The Board then determined that the asphalt road within the Project had to be repaved. It was the original road. Nothing had been done to it for over 30 years. It cost approximately \$57,000 and was something that was covered by the Reserve Fund.

SHORT TERM RENTING

Short Term Renting causes problems and, as more and more Short Term Renting occurs, more and more problems occur. At least 105 Owners engage in Short Term Renting. There may be more. Some Owners send in “Guests” who are in fact Short Term Renters.

It was simpler when Short Term Renting was managed by two Rental Agencies. And the Association could hold them responsible for what renters did. Today the Association has to deal with the two Rental Agencies and thirty three Owners who rent directly. This has greatly complicated matters. The 85 Owners who are either permanent residents or do not rent deserve respect. Hamilton Cove is a residential community.

Hamilton Cove was never intended as a resort. The Association is not staffed to run a resort. The Association Office, one person, cannot deal with Short Term Renters demands. Example, “I rented a Unit for eight people. Why is there only a golf cart for four people?” Or “If I cannot bring in my emotional support dog I will sue. So, tell the guards to let me bring in my dog.” Or, from an Owner, “Why didn’t you call me and tell me that the pool was open so I could tell my renters.”

The amenities were not designed for crowds. The Board is bothered by new problems that have arisen. Short Term Renters team up with friends who stay at a hotel in Avalon. The renters tell them to come to Hamilton Cove to party. For the first time, a Security Guard was physically attacked. Security Guards and Association employees are being verbally abused as they perform their duties. There have been two serious golf cart accidents by drivers who were apparently intoxicated. Underage driving is on the rise. There is a developing attitude-- “We paid our money, and we can do whatever we want to do.” To deal with the new and changing problems, the Board undertook a complete review of the Rules and regulations and adopted revised Rules and Regulations on June 28, 2021. A copy

accompanies this letter, and the Rules are available on the Association's website, hchoacatalina.org.

RULES AND REGULATIONS/PREDETERMINED FINES

The principal new feature of the Rules is an expansion of the Predetermined Fines. Those who Short Term Rent want to be aware of fines ASAP, before they return security deposits. This will allow Owners and the Rental Agencies to be advised of proposed fines immediately after the occurrence. Predetermined Fines can be appealed to the Board. A list of the Predetermined Fines accompanies this letter.

OPERATING COMMITTEE

The Board learned during the pandemic that decisions cannot wait for quarterly in person board meetings. In order for the Board to better deal with problems as they arise the Board adopted the following resolution:

FUTURE MEETINGS. The Board discussed the effect of the pandemic on the ability of the Board to hold in person meetings. It was noted that only 18 of 190 Units are occupied full time and that this is not an homeowners association where the units are occupied by Owners who can readily attend meetings held in the Association's building. It was further noted that the Board Members are also the Officers of the Association responsible for day to day operations, that there is no management company, and that only two of the five directors live at the project full time. The pandemic made it necessary to hold emergency Board Meetings. With the increase in Short Term Renting, the age of the development and the difficulty recruiting qualified employees, it is important that the Board have an efficient way to deal with day to day problems. The Board is intended to be the policy-making body pursuant to whose overall supervision and control those who actually carry on the daily operations of the association act. To this end the Board discussed establishing an Operating Committee made up of Board Members which can deal with problems as they arise by meeting electronically. This will

assure that the Board is supervising those carrying on the day to day activities.

After discussion, upon a motion duly made, seconded and unanimously approved, the following resolution was adopted:

RESOLVED, pursuant to Corporation Code Section 7211 a committee to be known as the “Operating Committee” is hereby formed. The members of the Operating Committee shall be the Board Members. The President shall be the Chair of the Operating Committee. Meetings may be called by the Chair or any two members of the Operating Committee. Decisions of the Operating Committee shall be made by a majority of the members of the Operating Committee. The Operating Committee shall have the authority of the Board except as to those matters designated in Corp. Code Section 7212; matters requiring a decision of the Board in an open meeting as required by the CC&R’s, the Bylaws or applicable laws; and matters within the purview of the Executive Committee. The Operating Committee may make recommendations to the Board on matters to be considered by the Board in an open meeting.

FURTHER RESOLVED, the Operating Committee shall establish a page on the Association’s website where decisions of the Operating Committee will be recorded.

SOUTHERN CALIFORNIA EDISON

The pending General Rate Case in which SCE is trying to increase water rates 600% has been extended at least three additional months. I am representing the Catalina Parties, the Island’s principal stakeholders. SCE just filed a new Application indicating that it will be seeking **\$70,000,000 plus, \$38,500 per ratepayer**, for removal of PCB lined pipes in the Two Harbor Area. A page devoted to SCE has been created on the Association’s website to try to keep Owners up to date.

BUILDING 13 REPAIRS

Our buildings are over thirty years old and showing their age. The current repairs being undertaken in Building 13 is an example. Seams in internal gutters deteriorated over time. Water leaked on to and rotted wooden beams in an area particularly hard to get to. Doing any major repair on the Island is a challenge and a half. This one is double that.

SALT-WATER SYSTEM REPAIRS

A leak in a salt-water pipe four feet under a street occurred forcing us to switch to fresh water for a time. The culprit, a metal clamp on a joint that deteriorated. Metal clamps should never have been used on a PVC salt-water line. This is an example of the problems we have to deal with.

ASSOCIATION'S WEBSITE

Please regularly check the Association's website—hchoacatalina.org. It is the best way to keep informed. That is the first place we post information you need to know.

STAFF

We are currently operating with the smallest number of staff members we have ever had. It has been extremely difficult hiring qualified individuals. Because of the onslaught of Short Term Renters going to the Association Office we are currently unable to keep the door unlocked during business hours. If you are going to the Office, call ahead of time, 310 510 9500.

Very truly yours,

HAMILTON COVE
HOMEOWNERS ASSOCIATION

By: Norris J. Bishton, Jr.
President and Director

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