

1/25/2020

TO: ALL OWNERS

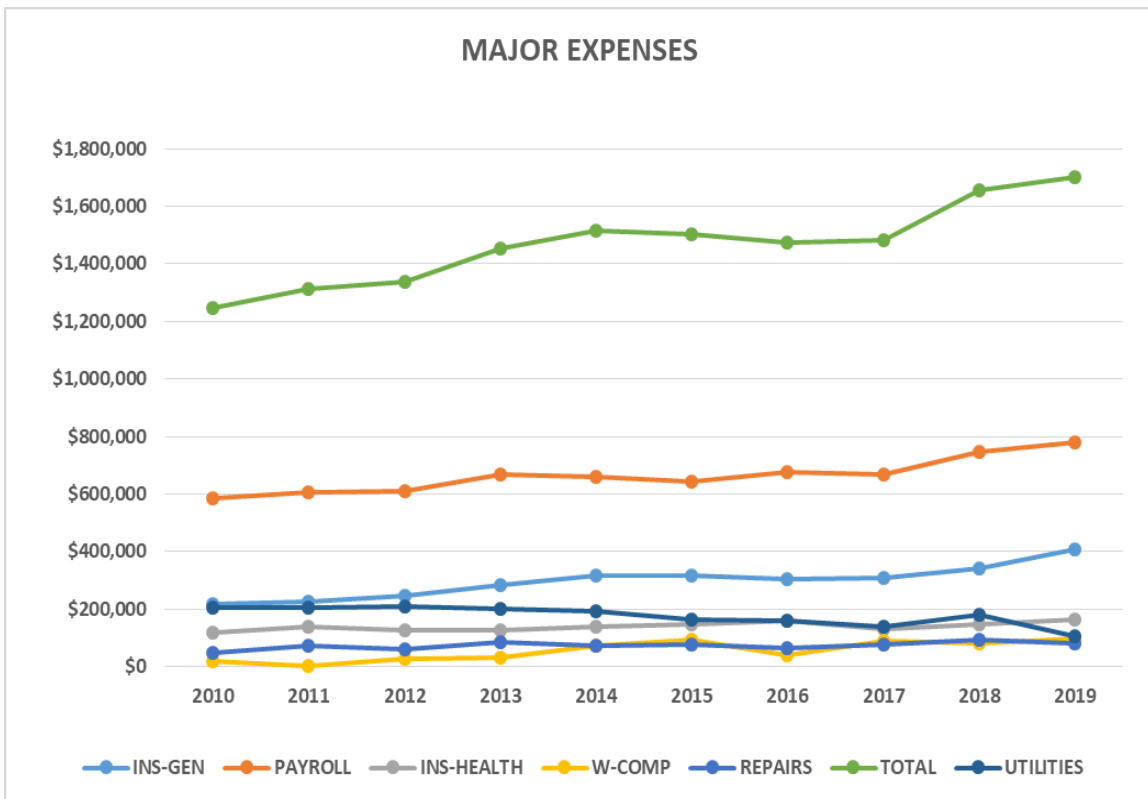
FROM: Norris J. Bishton, Jr., President

There will be a meeting of the Board at 12:00 Noon on Sunday February 9, 2020 in the Clubhouse. The principle purpose of the meeting is to approve a budget for 2020.

The Board is required to approve a budget and send it to the Owners 30 days before the beginning of the year, together with detailed Disclosures. I was unable to do so in late November last year because three Board Members voted to delay approval of a budget until after the yearend financial statement was received. On 1/8/2020 I sent the Board Members the yearend financial statement and a detailed memo regarding the Association's financial challenges. The statement is available on the Association web site.

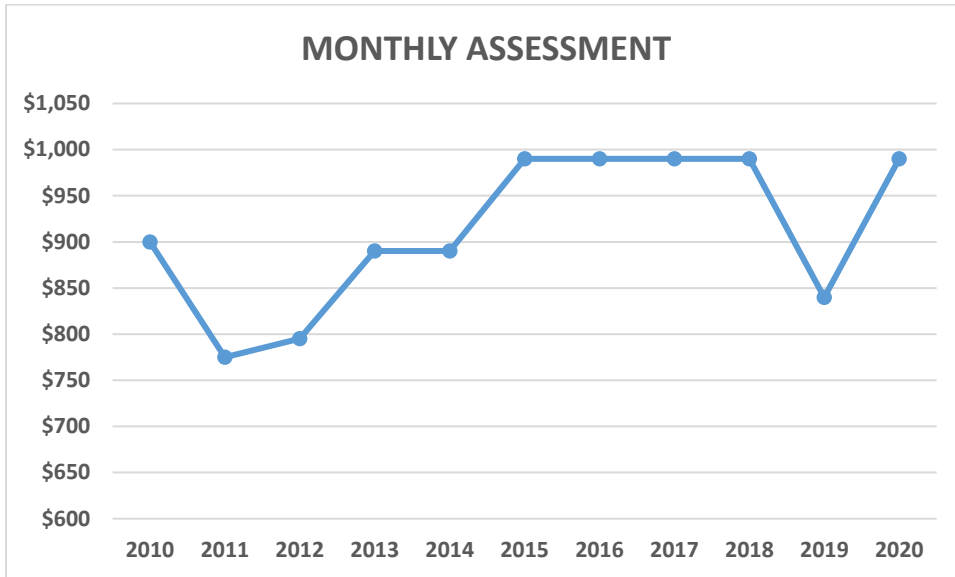
As President, I monitor every cent spent by the Association and have been doing so for 20 years. Each budget item I recommend is based upon past experience and my best judgment as to what is required to maintain the Association's property and all of our property values. I do not arbitrarily choose a total number and try to make it work.

Expenses go up. The following graph reflects the Association's Major Expenses:



Payroll and General Insurance are the driving forces. We have an excellent Staff that makes Hamilton Cove what it is. The average pay for other than supervisors and skilled employees (carpenters, plumbers) is \$14.71 an hour.

The following graph reflects the monthly assessment for the same period without special assessments for the Reserves:



It also reflects how we got in trouble last year.

We ended 2019 unable to fully repay the loan we took from Reserves to pay for Insurance (the “Insurance Loan”). (We do this because the cost of financing the premium greatly exceeds what we earn of the Reserves.) **I under budgeted for Insurance in 2019.** I budgeted \$355,000 for general Insurance. It came in at \$407,084 driven by a huge increase in the Association’s Fire and Property Insurance. This was driven by the recent fires in California. Predicting insurance costs in November when the insurance renews the following March is a challenge. One thing I know, it goes up rather than down.

Health Insurance was over budget by \$22,175. It renews in June. Predicting this seven months in advance is also a challenge. The only other item significantly over budget was Pier and Dock-- \$12,117. This was caused by damage to the dock after it was installed.

Many items were under budget—Supplies (\$14,541); Payroll (\$14,450); Electricity (\$50,323); and Water (\$23,009). Electricity was under budget because of a large unexpected refund. Water was under budget because of crazy billing from Southern California Edison (SCE). For months, SCE has failed to bill for three meters where substantial water is used. The bills read: “To be Billed Later.”

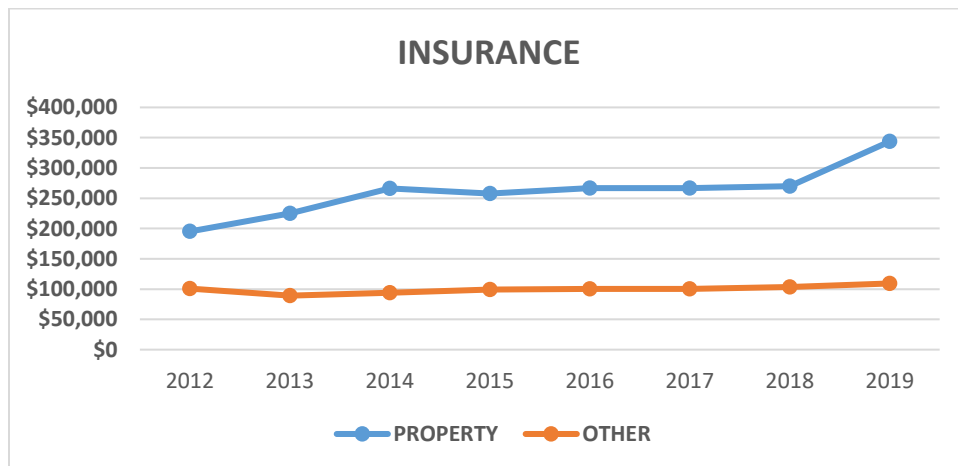
Because of the worsening financial condition, the Association stopped making the budgeted \$10,000 a month transfer to Reserves in August. We also ended the year owing \$122,125 to Reserves for the Insurance Loan. This must be repaid by March 22, 2020.

There is no law specifically requiring Reserve accounts to be actually funded in any particular amount. This is sensible, because there is no “one-size-fits-all” answer for common interest communities, and so many factors bear upon what is a properly funded association. **The condominium lending guidelines of FHA/FNMA require at least 10 percent of the annual budget to go into the reserve account.** The guidelines dictate \$20,000 a month.

The Association’s last study recommended Reserves totaling \$2,053,530. Assuming the balance of the Insurance Loan is repaid, as of 12/31/2019, the Association’s Reserves were \$1,290,043 or 63% of the Recommended Reserves.

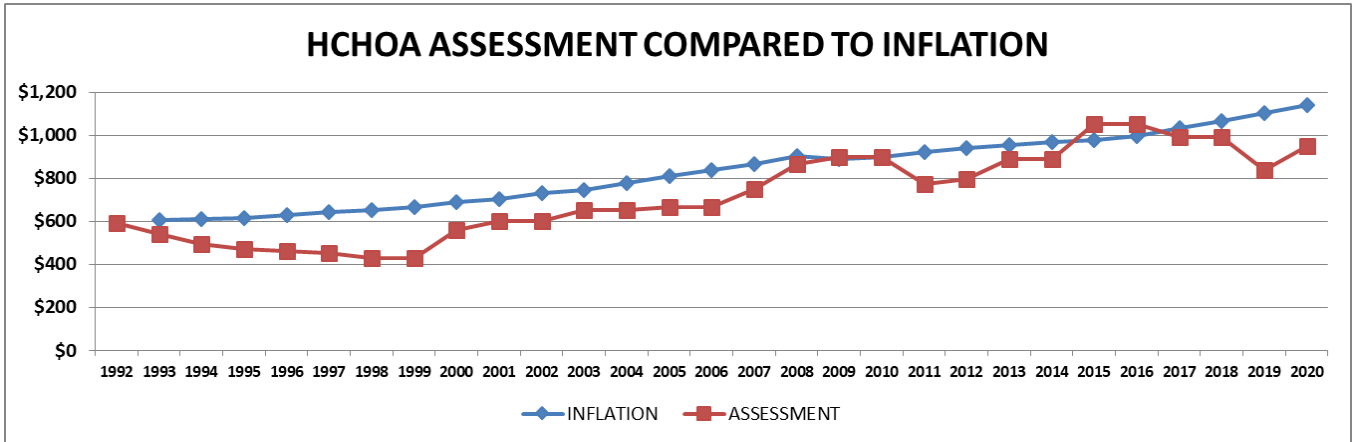
I am constantly filling out lenders’ certifications for buyers and Owners who are refinancing. Questions about Reserves are detailed. Some lenders request that copies of bank statements for the Reserves be provided. (I don’t provide them.) Most ask about the FHA/FNMA guideline. It is not unusual for lenders to call me to ask about Reserves. Not having adequate Reserves and not contributing to them every year does Owner’s a disservice. Financing a Unit at Hamilton Cove is hard enough. Making it harder to finance a unit is not in the Owners’ interests. Currently, one Owner’s refinancing is being held up because I cannot furnish the lender the 2020 Budget and a Balance Sheet reflecting adequate Reserves.

My recommendation is that the monthly assessment for 2020 be set at \$990. The full Budget is below. Nothing is budgeted for the repayment of the Insurance Loan. Small increases in some items have been budgeted based upon 2019 actuals. The budget for Payroll has not been increased. **General Insurance has been budgeted at \$450, 000.** Last year it was \$407,000. We are working diligently to reduce this expense. The following graph reflects what has occurred with insurance over the years:



Note the cost of all of the Association’s insurance other than property has remained static.

The following graph reflects the assessment and inflation since the Association was turned over by the developers:



Even with an increase to \$990 for 2020, we are still below inflation. Costs go up, not down.

Many Owners will be unable to attend the meeting. Please send me your comments. All comments will be circulated to the Board and be made available at the meeting.

Norris

ANNUAL BUDGET REPORT			
SECOND PRO FORMA OPERATING BUDGET			
2020			
			CLASS III
			2020
Description			185
Acct No	Monthly Assessment		\$720
INCOME			
4000	Assessment	\$2,197,800	\$43,200
4002	Earthquake Ins Assessment		
4007	Sublease Rent (MLL)		
4010	Late Fees and Interest	\$0	
4015	Preferred Mooring Fees	\$27,400	\$721
4025	Transfer Fees		
4150	Vending Machines		

4035	Full size vehicle parking fee	\$5,000	\$132
4040	Second Cart Parking fee	\$7,000	\$184
4045	Rack Storage Fee	\$1,000	\$26
4050	Boat Storage Fee	\$5,000	\$132
4055	Class III Assessment	\$44,911	
4150	Interest		
4175	Rental Income	\$0	
4176	Verizon Lease	\$19,000	\$500
4177	Massage Room Fees	\$600	\$16
4200	Refunds		
4875	Prior Year Carryover	\$0	
4950	Other Income		
TOTAL INCOME		\$2,307,711	\$44,911
EXPENSE			
7050	Appraisals	\$0	
7070	Auto Expense	\$15,600	\$411
7110	Bank Charges		
7160	Education and Travel		
7165	Contingencies	\$5,000	\$132
7170	Contributions		
7180	Computer Support	\$500	\$13
7250	Dues and Subscriptions	\$200	\$5
7292	Fees/Penalties		
7294	Freight	\$2,000	\$53
7295	Functions And Meetings	\$7,000	\$184
7296	Golf Course etc. supplies	\$2,000	\$53
7329	Insurance Earthquake		
7330	Insurance, general	\$450,000	\$4,300
7331	Insurance, group health	\$170,000	\$4,000
7332	Insurance, workers comp.	\$100,000	\$2,000
7334	Janitorial Supplies	\$20,000	\$526
7335	Internet Site	\$3,000	\$79
7340	Landscaping/Groundskeeping		
	Plumbing		
	Electrical		
	Tools		
	Plants		
	Grounds Upkeep		
	Equipment Upkeep		

	Tree Trimming Expense		
	Other		
	Total	\$20,000	\$526
7390	Legal and Professional		
	Accounting		
7390	Legal and Professional		
	Legal Transfer		
	Legal Collection		
	Total	\$17,000	\$447
7395	Lift Station		
7397	Mooring Fees	\$70,000	\$1,842
7470	Office	\$2,500	\$66
7480	Outside Services		
7489	Pest Control	\$14,500	
7490	Pier and Dock	\$25,000	\$658
7530	Postage	\$1,000	\$26
7540	Reproduction and copying	\$5,000	\$132
7550	Recreation Expense		
7560	Reserve Study		
7609	Inspections		
7610	Repairs and Maintenance		
	Appliances		
	Boat Storage		
	Buildings		
	Davit		
	Drywall		
	Elevator		
	Equipment		
	Fencing		
	Fire Equipment		
	Hardware Tools		
	Mooring Maintenance		
	Gate		
	Piano		
	Plumbing		
	Pool		
	Road		
	Security System		
	Sewage Lines		
	Signage		
	Total	\$80,000	\$2,105

7630	Fire Alarm System	\$30,000	\$789
7635	Supplies		
	Paint		
	Plumbing		
	Electrical		
	Washer/Dryer		
	Maintenance		
	Other		
	Total	\$40,000	\$1,053
7650	Licences and Permits	\$1,500	\$39
7661	Taxes		
7670	Transportaion		
7682	Trees		
7690	Payroll Taxes	\$71,640	\$1,885
7692	Payroll Acct Fee	\$11,000	\$289
7695	Payroll		
	Administrative		
	Maintenance		
	Painting		
	Security		
	Landscaping		
	Bonus		
	Other		
	Total	\$796,000	\$18,500
7701	Property Taxes	\$12,000	\$316
7750	State Taxes	\$3,000	\$79
7770	Telephone	\$50,000	\$1,316
7780	Uniforms	\$5,000	\$132
7810	Uilties		
	Hazardous Waste Removal		
	Trash Removal		
	Electricity		
7810	Water		
	Other		
	Total	\$171,000	\$2,500
7990	Miscellaneous		
8000	Transfer to Reserves	\$100,000	
8025	MLL Payment		
9500	Provision Fed Tax	\$6,000	\$158

	TOTAL EXPENSES	\$2,307,440	\$44,614
	NET INCOME	\$271	\$296