

TO: All Owners
11/30/2022

“When the going gets tough, the tough get going.” This quote is sometimes attributed to Frank Leahy, a coach at my alma mater, Notre Dame. It is what I have had to remind myself every day this past year. It is what our employees have demonstrated all year.

Employees. Pre COVID, we operated with twenty-four employees. Today we have thirteen full time employees and three part time employees. The three part time employees are all in Security. This problem in Security has resulted in the Facilities Manager having to fill shifts so that we have someone present 24/7. The Guard does not just let people in or out of the Project. The Guard monitors the fire alarm system, the sewer lift station, the saltwater system as well as the behavior of people on the Project. Some Owners have suggested that we do not need full time security. It is mandated in the CC&Rs and, based upon my many years as President, it would be a disaster not to have full time security. Normally, we have two guards on duty during the summer months. Most days this past year we had only one.

The Island labor pool has dried up. We have been unable to hire needed staff at any price. There is a dearth of applicants. We have been running ads for some time. We are currently reviewing five applicants. We have had to raise pay in order to keep the staff we have. They were being offered much higher pay by other Avalon employers. We lost employees because we could not in good conscience meet the salaries they had been offered.

We are exploring alternatives. We will shortly receive a proposal to turn over maintenance of the landscaping to an Overtown company that does work for the Island Company including Descanso. This will only solve part of the problem. Our landscape staff also collect the trash 24/7 and keep the Project clean. We will still have to have people to perform those duties.

We know that things have not been perfect this year. However, I commend our limited staff for what they accomplished.

Fire Insurance. For 2022 we budgeted \$580,650 for General Insurance which includes fire insurance. The actual cost was \$1,324,048. Fire Insurance was the culprit. Premiums are out of control with no end in

sight. The California Department of Insurance has not come up with any relief. The CC&Rs mandate insurance covering the full replacement cost of the Project currently estimated at \$81,000,000. More importantly, it is the Association's fire insurance that meets lenders' requirements in connection with a loan secured by a Unit. There is no way an individual Unit owner can obtain fire insurance that just covers his or her Unit. Owners are having trouble obtaining HO6 Policies to cover the contents of their Units. The only insurance I have been able to obtain for my home is through California Fair Plan which covers a fraction of its value. I am aware of people on the Island who have been unable to obtain fire insurance.

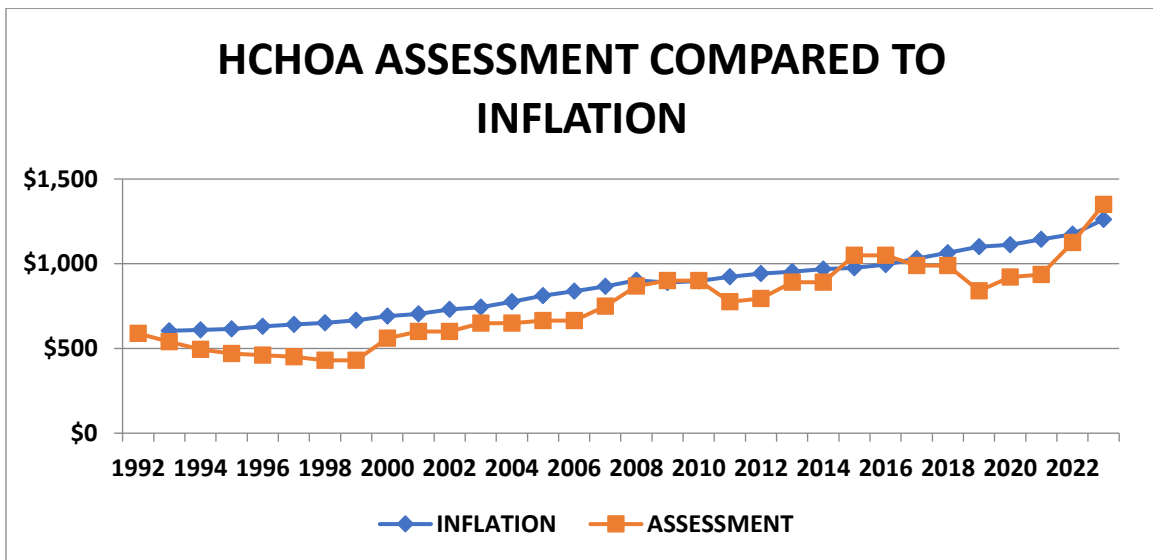
Repairs. Nothing lasts forever, including the buildings and infrastructure at Hamilton Cove. It is important to understand the history. Buildings 3, 4, 5, 6,7 and the Clubhouse as well as the saltwater system and the sewer system were built in 1985, 37 years ago. Buildings 1 and 2 were built in 1987. 35 years ago. Buildings 8,9,10 and 11 were built in 1988, 34 years ago. Buildings 12,13,17 and 18 were built in 1991. 31 years ago. Time has come for major repairs to the infrastructure. The jacuzzi is undergoing a major rehabilitation which will result in a tiled jacuzzi. Maintaining the plastered jacuzzi was difficult. A new fire alarm communication system is being installed which will reduce operating cost. The lift station will be reengineered and rehabbed. This is central to Hamilton Cove. Without a functioning lift station, we are dead in the water. The saltwater system needs upgrading. We went through three pumps this year. Major infrastructure costs will be borne by all 185 condominium owners but also by the eighty-eight lots that make up the Remaining Land.

Budget. By law we are required to inform Owners of the Budget for the upcoming year by December 1, 2022, along with substantial other information. Attached is the Budget Report for 2023 and the Annual Policy Statement. Our insurance does not renew until March 22nd. It is impossible to know today what the insurance costs will be in March of next year. Insurance companies will not consider applications sooner than 90 days before the renewal date. We have never been able to get insurance proposals before around the 10th of March.

We are limited by law and the CC&Rs from raising the monthly assessment more than 20% of the prior year's assessment. The proposed budget for next year does just that. The Class 1 monthly assessment will be \$1350. Class 3 will be \$990.

The budget contains \$844,850 for General Insurance. This cost was \$1,324,048 last year. Based upon what happened last year this is inadequate. But it is the largest amount we could budget based upon the 20% limitation. This problem will be addressed in March.

The Board constantly evaluates the financial situation. The Board does not like to raise the assessment any more than Owners like paying increased assessments. Costs constantly go up. Inflation exists. The Board must face reality. Based upon the CPI number for October 2022, the monthly assessment compared to inflation looks like this:



Based upon the projected CPI for next year, we will be even or less than the relative inflation number.

Thank You. Once again Owners are timely paying their assessments. For this the Board thanks you. Additionally, the Board is well aware of the difficulty facing the staff this year. The Board would particularly like to thank Manny Rodriguez and Maria Reyes for the job they have done this year under trying circumstances.

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