

**PHA BOARD MEETING
MAY 16, 2008
MINUTES**

Members Present

Julio Bagué
Jaime Morgan-Stubbe
Rita Molinelli
Walter Fournier
Servando Díaz
Luis Rodríguez
Edd Siler
Victor Nieto
Eric Grafals
Félix Santoni

Members Absent/Excused

Alberto Rivera
Raúl Rivera
Daniel Vasse

Others Present

Antonio Maldonado
Jose J. Martínez
Daisy Díaz
Shirley Morales

I. CALL TO ORDER

Mr. Julio Bagué, President, called the meeting to order at 8:55 a.m. Mr. Bagué welcomed Mr. Eric Grafals to his first formal PHA Board meeting. Also, Mr. Bagué thanked the PHA Board for the excellent Annual Meeting held on March 29, 2008 and indicated that the feedback received from the Delegates and other attendees regarding the meeting has been very positive.

II. APPROVAL OF MINUTES

Minutes of the March 14, 2008 meeting were unanimously approved upon a motion by Mr. Eric Grafals seconded by Mr. Victor Nieto. Also, the minutes of the PHA Board of Directors organizational meeting held on March 29, 2008 immediately after the Annual Meeting were unanimously approved upon a motion by Mr. Walter Fournier seconded by Mr. Servando Díaz.

III. PRESIDENT'S REPORT

A. Equestrian Center Riding Club

As discussed at the last Board meeting, the Executive Committee has addressed this matter and recognizes that the Equestrian Center is an amenity that enhances the quality of life of the community. Therefore, it has concluded that PHA should support the identification of additional trails for the riding club without compromising the beauty of the common areas or the use of Palmas streets or green areas for such an activity for the reasons discussed before and contained in a PHA Board resolution passed two years ago upon a recommendation from the Delegates Committee and the Security Committee.

Dr. Benítez, ~~representing the Riding Club met with~~ Jaime Morgan, Tony Maldonado and Julio Bagué ~~met~~ to discuss possible alternatives for additional trails. Dr. Benítez ~~proposed that~~ ~~wants for~~ the club horses ~~be allowed~~ to ride along Academy Drive (on the side of The Woods Project) up to Palmas Drive, then crossing Palmas Drive in front of the Sales Center and proceed along Palmas Drive, not on the road shoulders but on the hillside and near Palmas Reales, to the Country Club/Palmas Drive Circle at this point crossing the circle ~~on two sides~~ and down the ~~right~~ side of Country Club Road to the Forest area ~~or vice versa~~. PHA asked Dr. Benítez to ~~inform the Riding Club~~ send a detailed proposal outlining riding procedures, numbers and the areas so it may take his request under formal consideration.

There are some safety factors that must be addressed. Palmas Drive is a very busy road at all times. Safety for the riders and vehicle drivers is a prime concern that must be taken in consideration. The ~~Riding Club-Equestrian Center~~ must indemnify and provide insurance coverage to protect riders, vehicles, PHA and PDMPI in the event of an accident/incident from these horse riding activities. Also, green areas must be protected from any damage. Horse droppings in the streets or green areas must be cleaned by the ~~Club Equestrian Center~~.

~~Once the proposal from Dr. Benítez is received, it will be forwarded to the Security Committee for their review and will solicit comments from the Delegates as community representatives as both committees have been involved in this subject before. The restrictions contained in the PHA Board resolution are a product of their inputs on this matter.~~

~~Also,~~ PHA has solicited Marsh-Saldaña advice from the insurance perspective to determine how to protect the Association from potential liability in the event of an accident, incident or lawsuit involving this type of activity.

B. Status of the Marbella Park Lawsuit Negotiations

Mr. Julio Bagué asked Mr. Jaime Morgan to provide the Board with a status report on the negotiations regarding the Marbella Park Lawsuit Negotiations. Mr. Jaime Morgan informed that after the last meeting between representatives from PHA and PDMPI to iron out remaining differences, the MOU was sent to Houston for a final review of the draft document. A new draft was then received that incorporated changes requested by the Maxxam General Counsel. A meeting was held with Mr. Bagué to discuss the latest changes. Mr. Bagué raised certain objections to the changes that were added to the draft. Essentially, there are six items that remain open for discussion on the draft that are the source of disagreement. The most difficult of the six, in Mr. Morgan's view, has to do with the terms for transferring the Forest because it involves tax credits and the qualification by PHA as a qualified entity to receive a conservation easement. Should the Puerto Treasury determine that PHA does not qualify, qualify; the proposal contained in the MOU is for PDMPI to explore different alternatives such as the Puerto Rico Conservation Trust (Fideicomiso de Conservación de Puerto Rico) and any other third parties that may qualify instead. There are strong objections from Mr. Bagué to that proposal. Should the resolution from the Puerto Rico Treasury be a favorable one to PHA then there is no issue and PDMPI could then proceed with the process of appraising the Forest and obtaining the tax credits. Attorney Antonio Bauzá is working with the Treasury Department trying to get a resolution as soon as possible.

Mr. Morgan also informed that there is disagreement over the wording on Section III.4 having to do with the future development of the CP-7 parcel (Town Center). The PDMPI General Counsel would like wording in the MOU to read as follows: "The Forest shall be conveyed to PHA on the additional condition that PHA shall endorse in writing, testify in any hearing or proceeding of any type, and take such actions as are necessary before any United States or Puerto Rico regulatory body, administrative agency or court in support of the issuance of permits, authorizations and approvals required for the development of Parcel CP-7". Mr. Morgan added that this is totally new language never included in the previous eight drafts discussed and comes out of a concern that a future PHA Board may oppose such a development as owners of the Forest neighboring the CP-7 parcel.

Another major difference that arised, rose after the new draft MOU was received pertains to the three-year term for building the Forest boardwalk after the settlement and the consequences of not being able to rebuild it within that period. The disagreement arises because PDMPI wants a five year-period after the settlement to finalize the best alternative through a donation in the event that the transfer cannot be done under Law 183. This will allow PDMPI to maximize its benefit in terms of using tax credits for the most profitable years within that 5-year period. The disagreement then is that on one hand PDMPI is requiring PHA to build the boardwalk within three years after the settlement while allowing itself five years for the tax credits.

Mr. Morgan feels that the difference could be resolved through some sort of a lease licensing agreement because at the end the MOU makes the provision that in the event that for any reason PDMPI ultimately determines it will not be able to obtain the desired tax credits or tax deductions, PDMPI shall nevertheless proceed to transfer to PHA the title of the Forest Park.

Mr. Morgan also pointed out that there is concern over a change in the language having to do with PDMPI retaining a certain green area in Surfside. The last version before the proposed change use to read “The Green Areas/ Open Space areas include those areas transferred by Caribe Canal to PDMPI, with the exception of a certain area located between lots 19 and 21 of subdivision I more specifically described in Exhibit “I” here to (the segregated area). The segregated area shall be reserved for the exclusive use of PDMPI, its successors and assigns. PDMPI contemplates the establishment of a two-story dwelling unit with a maximum height that would not interfere or affect the scenic view from the street. As long as such use is in compliance with applicable laws and regulations, as well as Palmas del Mar Covenants, PHA Board of Directors shall not oppose such use”.

The new language on the latest MOU version now reads: “ The Green Area/Open Space Area include those areas transferred by Caribe Canal to PDMPI, with the exception of a certain area located between lots 19 and 21 of subdivision I more specifically described in Exhibit “I” hereto (the Segregated Area). The Segregated Area shall not be deemed to be a Green Area, Open Space or Common Area subject to the control of PHA, but shall be reserved for the exclusive use of PDMPI, its successors and assigns, for the establishment of a dwelling unit, landscaping and handscaping”.

PHA maintains that the MOU cannot imply that PHA can change a green area to non-green area. That is something that pertains to the regulatory agencies to decide and PDMPI must pursue the changes according to the law and that as long as it complies with the laws and regulations PHA will not oppose it.

Mr. Jaime Morgan indicated that the new draft now includes the green areas in the section for tax credits. He added that Mr. Bagué had correctly pointed out that these areas were already encumbered and cannot be used to create a conservation easement over them. He concurs with Mr. Bagué and that part will be removed from the proposed MOU.

Mr. Morgan concluded his update presentation by indicating those are the major differences that have arisedrisen from the latest MOU version.

Mr. Julio Bagué stated that since the signature of a basic memorandum of agreement with Mr. Morgan almost a year ago that provided the basis for the settlement negotiations, it seems that the negotiations have taken an increasingly divergent path. In view of the continuous diverging points and fundamental differences, Mr. Bagué added that he has concluded that the recommended course of action is to withdraw from the negotiations and ~~will~~ continue with the litigation process. There is a pre-trial scheduled for July 16, 2008 and, subject to the approval of the Board, hehe has instructed PHA lawyers to prepare accordingly. Mr. Bagué further added that he feels frustrated and disappointed with the divergent course of the negotiations; nevertheless, in good faith and following the meeting with Mr. Morgan, a final PHA draft, consonant with the Memorandum of

Agreement and previous positions and -in line with the MOU document previously approved by the PHA Board, was given to Morgan for PDMPI consideration.

Mr. Jaime Morgan pointed out that PHA needs to maintain perspective that the pleadings contained in the complaint have nothing to do with the Forest, the Forest Park, the green areas or any of the land that is being considered to be transferred as part of the settlement. The pleadings have to do with the transfer of the Marbella Park, beach access, etc. He also pointed out that, in his view, the issues regarding the Marbella Park have been resolved through negotiations with the Marbella Club as well as the issue of beach access. Nevertheless, taking in consideration PHA's known interest in the Forest boardwalk and other green areas, PDMPI decided to take advantage of the situation and reach an agreement for the transfer of those areas and get the boardwalk done. In reality, according to Mr. Morgan, PDMPI did not have to do anything at this juncture of Palmas development. PDMPI does not have to give anything until 90% of the development is complete according to the PHA Covenants. He feels that PDMPI's offer is a good deal that should not be disregarded by PHA. ~~He~~ Thus, ~~and~~ PHA should wait for the ruling from the Department of Treasury that may solve the conservation easement issue. Regarding other differences, Mr. Morgan also feels they can be worked out. Thus, he is asking the Board's consideration because they are going beyond the pleadings in the lawsuit and with that in mind the Board should give another week or two to conclude ironing out final differences and reaching a final agreement on the MOU. In his view, this is a good settlement and no more money should be wasted on protracted litigations.

Mr. Bagué acknowledged that Mr. Morgan has done his best to negotiate in good faith. He feels that this is a matter of title of a particular parcel although Mr. Morgan does not see it that way. He also feels that he has negotiated in good faith and what is being negotiated is not "frosting in a cake" but the settlement of a lawsuit. The last draft was unreasonable and was a set back to the good faith efforts of PHA.

Mr. Félix Santoni indicated that the reason for this situation is that the Park was transferred to Marbella Club as a surprise move against the best interest of and then it turn out that the park was not acceptable to the community and against what was approved by the Planning Board as reflected in the so called Master Plan. This situation was not satisfactory or acceptable favorable to the community. Mr. Morgan replied that what he did was done with the best interest of the community in mind. No one can dictate what PDMPI can or cannot do with its land.

Mr. Bagué thanked Mr. Morgan for the status report and asked the Board if the additional time requested by Mr. Morgan should be given to see if things could be settled in a manner acceptable to both PHA and PDMPI.

Ms. Rita Molinelli stated that, after nearly a year of negotiations, she feels that the extra days requested by Mr. Morgan should be granted to see if things can be worked out. Mr. Bagué indicated that his understanding is that the latest draft received from PDMPI was after being reviewed by Houston was final a final offer and not negotiable and asked if Mr. Morgan had full authority to negotiate any further changes. Mr. Morgan replied he

did not have that authority but will ask ~~for it and~~ for parameters to negotiate the differences. Furthermore, Mr. Bague requested a PDMPI corporate resolution authorizing Mr. Morgan to execute the MOU, if an agreement is reached. Mr. Morgan replied that he can obtain the requested resolution in forty eight hours.

Finally, the Board concluded to give the parts until June 6, 2008 to ~~resolve iron out~~ any differences and to produce a final agreement.

B. Beach Erosion Committee

The Beach Erosion committee has been restructured with the following membership: Luis Muñiz, Peter Palermo, Raúl Rivera, Frank Torres, Tony Vázquez, Tony Maldonado, Rita Molinelli, Jaime Morgan, Julio Bagué, Rafael Santos Del Valle and Luis Rodríguez. Frank Torres will chair the committee. The committee met on May 9, 2008 to discuss new possible alternatives to deal with the beach erosion and the nourishment of sand to the beach areas. An assessment will be conducted to determine the viability of having sand pumped from the ocean to the beach. This will require assessing the location of the sand, its quality and amounts available. The committee will also consider potential contractors, cost estimates and permit requirements for these alternatives. The Committee will continue to look at other possible alternatives to protect the beach from further erosion and to refurbish or nourish the beach with new sand.

The approach to the beach erosion problem should be in two stages. First stage should be what the communities with beach front properties can do on a short-term basis to protect their respective properties. These measures ~~could~~should include hardening of the shore line with cement/sand bags as it was done at the Beach Club. The second stage should include long-term measures that should be undertaken by the general community. These should be major actions such as re-nourishment of the beach and modifying or changing method in which the way the beach is cleaned. Mr. Frank Torres has been asked to look into the possibility of pumping sand from nearby ocean areas and to determine amount and condition of available sand.

Mr. Luis Rodríguez suggested that if Mr. Frank Torres is going to act in a consultant capacity he should not chair the Beach Erosion Committee to avoid potential conflicts of interest issues. Mr. Bagué concurred with Mr. Rodríguez and requested a motion to use funding from the Artificial Reef joint PHA/PDMPI account to explore alternatives for the re-nourishment of the beach.

Ms. Rita Molinelli made a motion to authorize the use funds from the Artificial ~~Reef joint~~Reef joint PHA/PDMPI account to study possible solutions and alternatives for the re-nourishment of the beach. The motion was seconded by Mr. Luis Rodríguez and unanimously approved by the Board.

Mr. Bagué added that the Committee will also explore Mr. Zenon's proposal to bring sand by barge from Punta Arenas. A meeting will be held with Mr. Zenon to determine availability, quality and prices of transporting the sand. Mr. Walter Fournier indicated that he will assist in this endeavor and pointed out that Mr. Zenón has the required permits to dredge the sand at Punta Arenas.

Regarding the method of cleaning the beach, Mr. Edd Siler informed that long time ago the type of equipment used for cleaning the beach used to sift the sand ~~the pick~~ ~~up~~ ~~segregate~~ the seaweed and trash. However, this equipment eventually broke down and was replaced with the existing ~~method~~ ~~one~~ which does not sift the sand but rakes it. The seaweed is then mixed with the sand and pushed to the side.

Mr. Antonio Maldonado added that PHA has looked into changing the beach cleaning equipment to the one that sifts the sand and such equipment is available and in use in other places such as Punta Santiago by DNR. The problem with using that equipment is that requires a place for the seaweed and other beach debris to be deposited. Such a place is not available within Palmas del Mar and the landfill sites will not accept that type of material. PDMU is looking into the possibility of using it for compost manufacturing.

Mr. Walter Fournier suggested that PHA looks into the way the Slip owners Association dispose of the seaweed collected in the Marina. Mr. Maldonado indicated that the amount of seaweed collected at the beach consists of tons of seaweed collected daily which makes it difficult to move and to find a suitable storage or burying place.

Mr. Luis Rodríguez added that the Palmas Habitat Conservation Plan is the best managed plan of its class in Puerto Rico. Any changes in the manner the beach is cleaned should be done through U.S. Fish and Wildlife Services. He also suggests that care must be exercised not to rely on Mrs. Lesbia Montero on these matters as she is not an expert. Coordination on these issues should be done through USF & WS.

C. Beach Access

The temporary beach access between Solarea and the Beach Club is operational and is being opened during weekends. There is ample golf cart parking at the end. However, there is insufficient space along the access path for two carts to pass or for a single golf cart to turnaround. The Solarea Project Engineer has been ~~appraised~~ ~~apprised~~ of these problems. It has been suggested to them that the access path be widened at the middle to allow for carts to pass each other and provide sufficient space for a cart to turn around.

Regarding the access between Solarea and the Crescent Beach there has been no change. Work at the turn around circle at the end is not complete and neither is the landscaping ~~of~~ ~~the area~~. The proposed golf cart parking area at the small parcel at the entrance to this access is waiting for approval from Crescent Beach to connect a drainage tube from the parcel to a drainage point behind the Crescent Beach fence. In case the proposed connection to Crescent Beach is not possible, PHA is considering other alternatives to deal with the drainage problem.

IV. TREASURER'S REPORT – MR. SERVANDO DIAZ

Mr. Servando Díaz, PHA Treasurer, presented a review of the financial statements as of March 2008. The most significant variance stems from regular assessments and road assessments not being received as estimated. Also, variance includes devolution of road repair fees made to Eastern Development Inc. pertaining to future phases of Palmanova Village project being placed on hold.

Mr. Servando Díaz then addressed the accounts receivable situation. During the first quarter of 2008, collections have fallen behind by \$100,000. A meeting will be held with DCI to implement new procedures to insure more aggressive action is taken with morose homeowners. Also, a meeting is being held with the collection lawyers to review the situation with developers in arrears as this is the biggest share of these accounts.

Following a detailed discussion and review of PHA's current collection system and policies, upon a motion by Mr. Walter Fournier seconded by Ms. Rita Molinelli the PHA Board unanimously passed a resolution adopting a new policy effective July 1, 2008, whereby all accounts in arrears by a quarter plus 60 days will be referred to attorneys for collection actions. Also, these accounts shall be automatically submitted to the appropriate credit agencies. PHA voting rights, AVI cards, golf cart registration, etc. will be suspended to homeowners with accounts in arrears in accordance with Article 27 of the PHA By-Laws. This policy will be promulgated to the members of the Association at least 30 days prior to the date of effectiveness.

An action plan for handling current accounts falling in arrears as well as old accounts with liens will be developed following the meeting with DCI and lawyers.

Mr. ~~Julio~~ Bagué informed the Board that he is exploring the possibility of expanding the \$200,000 loan approved by the Board at the last meeting to \$500,000 ~~and securing the same~~ with a PHA Building second mortgage balloon term loan. This will allow ~~to accelerate~~ accelerating the completion of several projects that are pending. These projects include the camera surveillance system (\$200,000), LC-1 parcel Golf Cart Parking & Landscaping (\$30,000), Candelero/Palmas Drive Intersection ~~Landscaping~~ Landscaping & Irrigation Project (\$37,000), Children's Park completion upgrades (\$102,500), upgrade of PHA Building Parking illumination to Solar (\$40,500) and Phase II cart path solar illumination (\$90,000). The cost to PHA will be about \$3,000 per month. Mr. Bagué feels that if PHA could do a major leap in these projects the community will be well served.

Several Board members expressed their opinion regarding the accounts receivable problem being faced by PHA which can seriously impact its cash flow and stated ~~that~~ care that care must be exercised in adding more financial commitments to the organization. Except for the loan for the surveillance system approved at the last Board meeting, no additional ~~other~~ loans should be contemplated at this point. Mr. Edd Siler

indicated that these projects should be planned on a yearly basis within the budget cycle and executed according to the budget. If additional money beyond the budget is needed to complete certain projects, consideration should be given to have a special assessment.

Mr. Félix Santoni pointed out that this is not the time to borrow money from the banks. He suggested ~~to use using PHA CD's-D's to fund any project to be deem necessary to improve the community standing as collateral for the camera surveillance system loan but not to go beyond that or increase the PHA debt; particularly, not going beyond the existing building mortgage.~~ Mr. Walter Fournier, Mr. Edd Siler and Ms. Rita Molinelli and Mr. Eric Grafals concurred with Mr. Felix Santoni. ~~The PHA Board tabled further discussion on the possibility of borrowing \$500,000 to cover other PHA projects. Mr. Bagué withdrew his request for presentation at the next . These projects should be contemplated within the budget cycle and within budget constraints as stated in the PHA Covenants.~~
~~-Board Meeting.~~

V. PHA EXECUTIVE DIRECTOR'S REPORT

A. Perimeter Surveillance System

PHA is currently working with the banks on the financing of this project. The banks are requiring collateral security in the form of a Certificate of Deposit. Once the project starts it will take approximately 8 weeks to complete installation and for the system to be fully operational.

B. Security Update

1. Refresher Training

Refresher training is on-going in medical emergency response procedures and CPR. Training has been conducted in fire response. Police training on detentions and interventions is being programmed.

2. Police Presence

The State Police has been patrolling at Palmas on a daily basis. Interventions are being conducted with all vehicles leaving Palmas. Also, special interventions are being planned for particular areas such as the Harbor Lakes construction projects. Coordination is being effected for a stronger enforcement of the municipal code.

3. Incidents Review for the month of April

There were no homicides or sexual aggressions reported. An altercation among guests was reported at Club Cala and was handled by St. James and the Humacao Police. There were five illegal appropriations (hurtos) reported in April. Four of these took place in commercial areas and one in a residential area. Fourteen (14) burglaries were reported in

April. Four of these took place in Harborside, two in Costa Verde, two in Palmas Reales, two in Villa Franca, one in La Jolla, one in Fairlakes Village, one in Harborside and one in Club Cala. Most residential burglaries involved stolen plasma T.V., laptops, electronic equipment and games. Eight individuals were detained by St. James and two of these arrested by the Police. Two vehicles were reported stolen and one was recovered.

Five rescues were performed by the Beach Patrol bringing to 21 the total of rescues in 2008. This number already exceeds the total number of people rescued in 2007. The Beach Patrol has been provided with a 10-foot emergency rescue board that seems to be working well. Simultaneous rescues have been already performed using the new board.

Security resources have been allocated to deal with the increase in burglaries seen in April. Special emphasis is being given to Harbor Lakes. Also, the Police and the CIC have implemented special patrols and vigilance over areas most affected by burglars. The municipal police has also assigned a patrol to work Palmas at night.

The Police Criminal Investigations Corps (CIC) reported that criminal delinquency in the Humacao regions has increased by 40% and burglaries have increased 111%. The increase in activity in Palmas del Mar is a reflection of what is happening in Puerto Rico and the region in general. The CIC is convinced that the large majority of the burglaries taking place in Palmas are being caused by housekeeping service and maintenance and landscaping personnel working around in homes and neighborhoods. They have already identified suspects and have established a special watch in most sensitive areas. Both the Police and St. James are collaborating in these measures. The CIC also indicated that several criminals from the Humacao area that were in jail have been released. Typically, when this happens the trend in delinquency increases until they are placed again behind bars. He urged, once more, that individual homeowners be more proactive in protecting themselves and in supporting security initiatives and judicial actions when criminals are apprehended. The CIC has given their commitment to continue to work with the community to bring delinquency and criminal activity under control.

PHA has implemented a 100% search of all vehicles carrying garbage, vegetation and concealed equipment out of Palmas. Also, landscaping disposable materials are now required to be taken to PDMU for processing within Palmas. The new procedures have been distributed to all regimes and to landscaping companies and individuals. Also, PDMU has taken steps to be ready to receive the additional traffic.

4. Summer Contingency Plan

A security summer contingency plan has been developed and will go into effect starting with the Memorial Day weekend. Bicycle patrols and additional security guards have been added to patrol beach and commercial areas such as Palmanova Plaza. Also the municipal police will be working with St. James to enforce the Municipal Code in commercial areas within Palmas del Mar.

5. Beach Cleaning

The frequency for the cleaning of beach has been limited to three days per week as directed by the Department of Natural Resources (DNR). This is a change in DNR protocol for cleaning of the beach areas in Puerto Rico as an attempt to reduce the level of erosion of the coastal zones. PHA is negotiating with DNR to have the frequency increased to five days a week during the summer months in order to make Palmas beach areas more attractive and more usable to visitors and homeowners. The new frequency will start on the Memorial Day weekend.

PHA is also looking into the possibility of using another type of beach cleaning equipment that allows for the sand to be sifted while removing seaweeds and trash. The problem here is that Palmas does not have a place where to deposit the collected materials as seaweed is not accepted for compost manufacturing at PDMU and neither is accepted at the landfill. Mr. Maldonado and Mr. Encarnación agreed to continue to pursue the possibility of using seaweed for compost manufacturing.

Mr. Maldonado also informed that PHA has filed a formal complaint with DNR regarding sand extraction operations being conducted in the banks of Río Humacao near Palmas del Mar. The sand from the river nourishes the beach area and replenishes it with new sand. However, the sand extraction operation is taking away this source of nourishment thus further adding to the beach erosion problem. A follow-up letter has been sent to DNR on this issue. To date no reply has been received.

6. Coquí Park

PHA has cleaned up approximately 30 feet of the Coquí Park area bordering Beach Village. The ARB is still working with Zalduondo on the renewal of the construction fence around the Palmas Inn parcel.

7. Fox Case

The PHA vs. Fox case has been remanded by the Federal Court to the Humacao Superior Court.

8. Hotel Transportation System

The Hotel reported that the vehicle broke down while being delivered from the dealer and had to be taken back. The Casino Manager has informed that he hopes to have the vehicle delivered and operating by Memorial Day Weekend.

9. Community Activities

Mr. Maldonado introduced Mr. José Juan Martínez, Community Activities Coordinator who presented the following report:

The year 2008 at a glance calendar is finished. We've included holidays, new community activities, and related activities that concern us.

A PHA Summer Sports programs for the weekends includes, mountain bike trek, walking trails trek , Kayaks, Volleyball playero, Football Playero, Soccer Playero, Sandcastle competition, Paletas (beach tennis), limbo dance competition and all the surfing (kite, windsurfing and sand surfing).

A PHA educational activities is up and running with activities like Bird watch (next will be our 3rd reef awareness (by Alfredo Torruella) HCP awareness, Flora and HerpetoHerpetic fauna.

The Teen Center has been remodeled thanks to a donation of new furniture. We've made the Center wireless capable. The Wii by Nintendo has been a major addition. We enjoy virtual boxing, bowling, baseball, golf, tennis, guitar Hero III, Mario Striker charged and Super Mario galaxy games.

Other activities like Walkers and Runners, bike Polo, cheerleading (a proposal is in), Tai Chi (a proposal is in) and a go-skate day is in the works.

The PHA Cultural Activities program is ready to go soon. Starting with Cannes Festival movies and the double feature remake of classics.

10. Kids Aboard Summer Boat Building Workshop

This program is set to go starting July 14 through August 1, 2008. This program is for kids' ages 8 through 17 and will teach them how to build and sail a boat. The workshop includes academic topics such as navigation and handling, history of boating, naval architecture, boat safety and team building. Captain Curtis Tucker of Kids Aboard will lead the program. More than 20 kids have already signed up for the program.

VI. OLD BUSINESS

A. ARB Inspector

Mr. Julio Bagué stated that at the last Board meeting Mr. Luis Rodríguez had asked about the status of funding for a second ARB inspector. Mr. Bagué requested Mr. Antonio Maldonado to research the background of this issue and present a review to the PHA Board. Mr. Maldonado then presented the following information extracted from previous Board minutes:

In 2007 the ARB made a request to PHA to fund a second ARB inspector. The request was addressed by the PHA Board in March 16, 2007 and the decision was to place the request on abeyance pending the following actions by the ARB:

1. The PHA Board is provided with financial statements and a detailed budget and financial disclosure of the ARB fiscal situation, in order to have a clear picture of the ARB finances;
 2. ARB legal counsel explains why they are not collecting legal fees for attorney/court cases taking advantage of the provisions contained in the PHA covenants;
 3. The ARB complies with the resolutions approved by the PHA Board on January 19, 2007 which included the implementation of recommendations contained in the ARB Special Committee Report and to include beach access requirements in the ARB Design Guidelines.
 4. The ARB reviews its fee structure for new construction projects.
- At the April 13, 2007 PHA Board meeting, Mr. James Shanks, President of the ARB, indicated that the ARB will comply with the recommendations on the ARB Special Report and presented an non-audited ARB Statement of Financial Position comparing assets and liabilities for the year 2004, 2005 and 2006. He also presented an non-audited ARB Statement of Activities of Revenues and Expenses for years 2004, 2005 and 2006.
 - At the October 12, 2007 PHA Board meeting, Mr. Luis Rodríguez reported that the ARB Ad-hoc Committee reviewing the rates had rendered its recommendations and that the ARB opted not to increase the fees for multi-family projects. He also reported that the ARB had adopted a resolution to include language in the ARB documents in order to recover violation fines and legal costs through enforcement of the PHA covenants.
 - On November 20, 2007 the ARB forwarded copies to PHA of two ARB resolutions authorizing the ARB to submit to the PHA Board of Directors the approval of a resolution authorizing the establishment of a system of fines in accordance with the PHA Restrictive Covenants. The resolution includes submitting a schedule of fines for PHA approval and implementation.
 - Regarding the resolution approved by the PHA Board in January 2007 directing the ARB to include in ARB Design Guidelines beach access requirements in accordance with Regulation no. 17 and Regulation no. 4 as outlined in a PHA request dated September 14, 2006 this guidance has not been included in the Design Guidelines (DG).
 - PHA is currently reviewing a draft of a new DG document and there is a cross reference to regulation 17 at the bottom of page 13. Requirements are not clearly spelled out and there is not mention of these regulatory requirements in Section 5, Special Regulations for Beachfront projects. PHA will be addressing these shortfalls during the review process of the draft document.
 - Regarding implementation of fines and recovery of legal fees the ARB is still working on the implementation of these procedures. Mr. López has met with Mr. Maldonado for recommendations and the development of specific procedures for imposing and collecting fines. In regard to the recovery of legal fees it is unknown what the ARB lawyers are doing.

- PHA has never seen an ARB budget clearly detailing its revenues and expenses other than the information presented by Mr. Shanks, to see how much support is needed from PHA and how could PHA support make a difference. Also, PHA representatives at the ARB do not participate in the ARB budget process or the periodic review of its financial situation or statements. PHA has never seen any audited financial statements or if such audits are being conducted.

Mr. Julio Bagué then indicated that in view of the above it can be concluded that the four conditions levied by the PHA Board before considering the request for funding of an ARB inspector have not been met. PHA remains committed to assist the ARB with the funding of a second inspector; however the following actions must be completed:

- The new Design Guidelines document incorporating beach access requirements and delineating a system of fines in accordance with the PHA Restrictive Covenants.
- Procedures for implementing and collecting fines.
- Procedures for collection of legal fees.

Mr. Bagué added that once these actions are completed PHA will include in the 2009 budget cycle funds to assist the ARB second inspector. However, the ARB needs to determine the hours/day that the new inspector will be used, the rate per hour to be paid and a description of the tasks to be performed. ~~Once this is determined, PHA will make provisions in next year's budget.~~

Mr. Luis Rodríguez indicated that he objects with the conclusions reached by Mr. Bagué. Mr. Edd Siler commented that he sits in the ARB Modifications Committee and at the ARB and can attest that the majority of the violations pertain to modifications in existing property and not new construction. Regardless of who pays for the inspector, the ARB and the ARB Modifications Committee have concluded that the Modifications Committee needs its own inspector. Mr. Siler added that PHA had set aside \$50,000 to fund this inspector with the understanding that the ARB would comply with certain things as already pointed out and he is disappointed that PHA has concluded not to support the inspector until next year or until the requirements are met. The community and the residents of Palmas are the ones being hurt by this decision. The current inspector and the ARB Executive Director are insufficient to handle all the inspection resulting from the construction, legal or otherwise, on-going in Palmas del Mar. According to Mr. Siler, this is a Palmas del Mar community issue not an ARB issue.

For clarification purposes, Mr. Maldonado pointed out that in the 2007 Budget process PHA had earmarked \$50,000 for ARB support; not necessarily for the funding of an ARB inspector. Later on in 2007, as a result of discussions at the ARB Modifications Committee, as pointed out by Mr. Siler, the request was made by the ARB for PHA to fund a second ARB inspector with these funds. Following the discussions previously

outlined regarding the ARB meeting certain requirements, the request has been held in abeyance until those requirements are met.

Mr. Julio Bagué indicated that the ARB is an instrument to serve the community. PHA will support such an instrument; however, it is a support that PHA will give within certain parameters. That is why, in addition to meeting certain requirements outlined by PHA more than a year ago, the costs and the tasks to be done by the new inspector must be clearly defined. Also, the ARB must submit a report to PHA outlining the status of implementing the resolutions passed by the ARB regarding collection of legal fees and fines and also implementing requirements in approved PHA resolutions.

Mr. Walter Fournier pointed out that there are certain requirements that have been levied to the ARB regarding accommodating design changes that will allow Palmas to become a more “green” community. The ARB has been very slow in responding to these requirements. Hopefully the new Design Guidelines should incorporate opportunities for people to incorporate use of alternate energy sources and other initiatives for the community to cope with ecological and environmental changes being seen world-wide.

B. Equestrian Center

The Deed placing the Equestrian Center under the PHA Covenants is ready. PDMPI lawyers are waiting for the Corporate Resolution from Hacienda Candelero Inc. As soon as that is received the deed will be signed. Hopefully this should take place within the next two weeks.

C. Traffic Circle Fountain

Nothing new to report.

D. Mandarin Hotel

Mr. Jaime Morgan informed that work on the closing of the loan continues on the Mandarin Hotel Project. He is hopeful that the project will start in 2009 and the site preparation work this year.

E. Slipowners

Mr. Walter Fournier indicated that he received the Background Paper on PHA Contribution to the Slipowners. He will set up a separate meeting between PHA and the President of the Slipowners to discuss this matter before bringing the subject to the PHA Board.

VII. NEW BUSINESS

A. Kings Helmet

A presentation by the Kings Helmet developers was made to the neighbors of the Surfside area. It was an excellent presentation but poorly attended by neighboring residents. Concern was expressed with the flow of storm waters and the location of an access control gate to the project and to the Guayanés area in general.

B. Forest Boardwalk

Mr. Julio Bagué informed PHA has received four proposals for the restoration of the Forest Boardwalk. They are:

Oro Maintenance & Construction (Treated Wood).....	\$247,745
JJ Quality Contractors (Treated Wood)	268,300
Las Piedras Construction (Treated Wood)	827,000
Marine Products & Services (Plastic).....	452,334

PHA is ready to move with this project as soon as it receives the transfer of the Forest or the conservation easement from PDMPI.

C. PHA Website

Mr. Jaime Morgan pointed out that PHA publishes security incident statistics on its web-site and this information is available to anyone who accesses the site. This practice may not be in the best interest from a property sales perspective. It seems this is the only community in Puerto Rico that is doing this.

Mr. Julio Bagué replied that this community publishes a lot of information as an effort to keep the community informed and to be transparent on what is occurring in our community. Caution must be exercised not to give the impression that PHA is trying to hide negative information about the community. A lot of people rely on PHA's web-site to keep up with what is happening in the community. Mr. Bagué will refer this topic to the Security Committee for their consideration.

Mr. Luis Rodríguez indicated that the information posted in the web-site should be looked at from an awareness point of view. Mr. Eric Grafals suggested that access to these pages should be limited to community members through registration and passwords. Mr. Maldonado replied that he will work with the PHA web-site administrator to try to implement Mr. Grafals suggestion.

VIII. ADJOURN

The PHA Board of Directors adjourned at 11:45 am upon a motion by Ms. Rita Molinelli seconded by Mr. Walter Fournier.

