

**PHA BOARD MEETING
MARCH 14, 2008
MINUTES**

Members Present

Julio Bagué
Jaime Morgan-Stubbe
Edd Siler
Rita Molinelli
Daniel Vasse
Luis Rodríguez
Félix Santoni
Raúl Rivera
Servando Díaz

Members Absent/Excused

Manuel Morales, Jr.
Victor Nieto
Walter Fournier
Alberto Rivera

Others Present

Antonio Maldonado
Daisy Díaz
Ing. José Parejo
Eric Grafals

I. CALL TO ORDER

Mr. Julio Bagué, President, called the meeting to order at 8:55 a.m. Mr. Bagué welcomed Director – elect Mr. Eric Grafals, who was invited to observe the Board Meeting proceedings. Also, Mr. Bagué welcomed Engineer José Parejo, PHA Traffic Management Consultant.

II. APPROVAL OF MINUTES

Minutes of the January 18, 2008 meeting were unanimously approved upon a motion by Ms. Rita Molinelli seconded by Mr. Servando Díaz with the following corrections:

- page 4, first paragraph, line 1 should read “ULI” instead of “QLI”
- page 8, last paragraph, line 3, line 2 replace phrase “last year” with “2006”.

III. PRESIDENT'S REPORT

A. Marbella Lawsuit

Negotiations with the Marbella Club are complete. All areas have been agreed to and the appropriate documents received. Regarding negotiations with PDMPI, the review of the final wording in the Memorandum of Understanding (MOU) continues. Survey of green areas, the Forest and the Forest Passive Park is completed. Survey plans indicating encroachments have been received. The Forest, the Passive Park and the 923 parking plans have been submitted to ARPE for segregation approval. The final wording concerning the transfer of the Forest still is being worked out as such wording is complicated by tax credits being sought by PDMPI. PHA must qualify as a conservation easement recipient for PDMPI to receive said tax credits..

Mr. Jaime Morgan added that regarding the transfer of the Forest, the MOU should not leave out any possible alternatives in the event that PHA is not qualified by Hacienda as a conservation easement recipient. Thus, the wording in the MOU should contemplate all alternatives to insure PDMPI avails itself to the possible tax credits that may be given as a result of donating the Forest as a Conservation Easement. Right now, it is questionable whether or not PHA qualifies as a conservation easement recipient. The issue is being worked out with Hacienda. Mr. Morgan added that whatever language he agrees to regarding the MOU, such language must be reviewed and approved by his General Counsel and principals before he can sign any document. Nevertheless, he remains optimistic that the review process and signature of the final document can be done in the immediate future; hopefully, before the Annual Meeting.

For the benefit of the Board, Mr. Morgan explained how a conservation easement is established, how to qualify for such an easement and the process for an organization to qualify for tax credits upon donating a conservation easement. Mr. Bagué also explained that PHA is working with Hacienda to insure its tax-exempt status documentation reflects that PHA qualifies as a conservation easement recipient.

Both Mr. Morgan and Mr. Bagué concurred that there is goodwill to have these negotiations completed in a manner that the interests of both parties are well served. Mr. Bagué added that, just as Mr. Morgan must do, he will submit to the PHA Board for approval the MOU once the final wording is drafted.

B. Traffic Study

Mr. Julio Bagué introduced Engineer José Parejo who proceeded to present a summary of the updated traffic study commissioned to him by PHA in November 2007. He cautioned not to compare this study to the previous one completed in 2006 as this study is completely new taking in consideration new information submitted by PDMPI.

Eng. Parejo explained that the study was divided into three phases equal to the development of the core of Palmas, the development of Palmas North and the development of Palmas South. The study was based on the Master Plan information as updated by Palmas del Mar Properties, Inc.

Eng. Parejo discussed in detail all the improvements required throughout the various phases of the project. It is understood that it is possible that projects may be on-going simultaneously in Palmas North, South and in the core of Palmas. Nevertheless, at the completion of each phase certain improvements, as contemplated in the study, will be necessary.

Mr. Jaime Morgan questioned why completion of a four-lane in Candelero River Parkway is being required at the completion of Phase I if no construction is being done in Palmas North. Mr. Parejo indicated he will review that part of the study and provide the Board an answer. Mr. Bagué informed that he personally measured Palmas Drive together, with Eng Parejo and Mr. Maldonado, at several points along the route and it concluded that Palmas Drive can accommodate four lanes along of 11 feet each.. According to Engineer Parejo, the standards allow for lanes of 10 to 12 feet wide which gives the flexibility for building four lanes and still keep the cart-paths that run on the side of the road.

Following the presentation and clarification of other aspects of the study, the PHA Board thanked Mr. Parejo for his presentation. A copy of the complete study is on file at PHA and a full copy has been provided to PDMPI. If needs be, Eng. Danny Torrellas will contact Eng. Parejo for clarification on any aspect of the study.

C. Artificial Reef

The Artificial Reef Committee met on February 12, 2008 to review the status of the project and to discuss Moffat & Nichols (M & N) technical opinion related Dr. Alfredo Torruella's proposed design study. At the request of the Board, M & N was retained by PHA to provide a second opinion regarding the technical feasibility of the said study. Dr. Rafael Cañizales represented M & N at the meeting.

In the opinion letter sent to PHA, and distributed to the Board members, M & N takes several exceptions to the study of Dr. Alfredo Torruella. M & N concluded that Torruella's study is perhaps useful in establishing the needs for an Artificial Reef or any other action to arrest the situation, as well as for permitting purposes; however, they pointed out, the design is not calibrated or physically modeled. Therefore, the results of the study cannot be construed as a final design drawing, or used for engineering construction purposes. Also, they recommend that the efficiency of other artificial reefs already built in the State of Florida or the Caribbean should be evaluated and the results of such an evaluation be taken in consideration. In their opinion, additional studies will be required to support a final design and construction phase. The costs of these additional studies could easily reach another \$600,000 over the money already spent in the development of this initiative. Furthermore, M & N pointed out that due to the many

variables affecting mother nature which are nearly impossible to predict on a consistent and reliable basis, the results of this or any of the other alternatives are not guaranteed. Dr. Alfredo Torruella addressed the differences of opinion with the M & N opinion letter at the meeting. He will provide in writing answers to the specific comments made by M & N.

The M & N representative agreed to assist PHA in obtaining cost estimates for additional studies and with information about other artificial reefs. Also, Dr. Cañizales was asked for help outlining other possible alternatives such as re-establishing the beach area by pumping sand from the ocean or bringing the sand from other places, as well as helping with the possible costs associated with these options.

A meeting was also held with Mr. Yamil Castillo and Mr. Jaime Orsini of Banco Popular to explore possible financial schemes to support the construction of the proposed artificial reef. Mr. Castillo is Senior Vice-President of Construction Loan Division and an experienced engineer who worked with the Corps of Engineers on this type of projects for many years. Mr. Orsini is Senior Vice-President for Corporate Finance and Advisory Services. In their view this will be a very difficult project for a bank to finance and for an organization such as PHA to undertake. The difficulty is primarily, because of the lack of collateral on one hand; and basing the repayment of a loan on a long-range (30 plus years) expensive assessment to homeowners on the other. In their opinion PHA should not take the role of the government in trying to take a leading role for this type of project.

The PHA Executive Committee concluded that the Artificial Reef Project as envisioned in the studies by Dr. Torruellas is well beyond the capability of the Association as this option does not appear economically or technical/construction feasible at this time. However, efforts must continue to find more feasible alternatives such as dredging and pumping sand into the shore. The Executive Committee recommended to the PHA Board to abandon the Artificial Reef initiative and to seek other avenues to safeguard Palmas beaches.

Upon a motion by Ms. Rita Molinelli seconded by Mr. Servando Díaz, the PHA Board accepted the Executive Committee recommendation to discontinue the Artificial Reef project along the lines previously proposed by Dr. Alfredo Torruella. Mr. Luis Rodríguez and Mr. Raúl Rivera abstained from this vote. Nevertheless, the Board concurred that other alternatives must be explored because the future of Palmas beaches is at stake. This is a very serious problem that cannot be ignored and is not going away and will get worse if nothing is done. Ms. Rita Molinelli emphasized that solving this problem continues to be one of the priority items for PHA. Other feasible alternatives must be pursued..

Mr. Julio Bagué underscored that the Artificial Reef project from a technical point of view has its flaws. He added that even if the project is calibrated and physically modeled the outcome cannot be guaranteed because all the variables affecting of mother nature. Undertaking a project costing \$15 to \$20 million, without any guarantees that such project will work, will be irresponsible for a non- for-profit organization such as PHA. It

is simply, as already pointed out to PHA by experts in the field, well beyond the scope and the capability of the organization.

D. Beach Access

The temporary access between Solarea and the Beach Club is finished. Engineer Danny Torrellas and Mr. Maldonado inspected the area and concurred that it is acceptable for use. A golf cart parking area has been prepared on the left side at the end of the access. PHA will place signs. Access should be open for the Easter holidays and week-ends there after.

The access between Solarea and Crescent Beach is still being worked out. Construction of the fence is not finished and no action has been taken regarding the widening of the circle and placement of bollards at the end of the access. Regarding the small parcel at the entrance to this easement denominated LC-1 parcel, to be transferred to PHA by PDMPI, Mr. Morgan has informed that this tract of land is already segregated and the Deed of Transfer is being prepared. A landscaping plan and paving of the golf-cart parking for this area has been prepared by Pennock Plants and Design. The cost of this project is approximately \$35,000.

The Executive Committee has recommended proceeding with the development of the golf cart parking and the landscaping plan for the small parcel to be transferred to PHA.

The PHA Board approved the Executive Committee recommendation and upon a motion by Rita Molinelli seconded by Daniel Vasse passed a resolution authorizing Mr. Julio Bagué to sign the deed of transfer of LC-1 parcel from PDMPI to PHA.

E. Children's Park

Equipment has been received. Approval of the final plans is pending at the ARB. Installation of equipment has been scheduled by City Park. Cost of proposals for work in the overall layout of the plan has been requested from Naim Berrios and HST Construction. Mr. Jaime Morgan requested copies of the invoices paid so he may move on to release PDMPI contribution (50,000) to the park. Already, those documents had been provided to PDMPI.

Mr. Raúl Rivera informed that the ARB has approved the final plans for the park. The ARB has suggested installing directional signage to the park.

F. Transfer of Sub-Division II Green Areas

The green areas in Sub-Division II property of Caribe Canal were officially transferred to PHA on February 22, 2008. These are 68 acres of green/open space areas located in the South District with some 11.2 acres located in the Guayanés sector. The legal fees paid by PHA to complete this transaction were \$1,300.

G. Solar Illumination

The first phase of this project is complete. Good comments and positive feedback is being received from the community.

H. Hiring of Deputy Executive Director

As authorized by the PHA Board of Directors, Mr. Antonio Maldonado, PHA Executive Director, concluded the process of hiring a Deputy Executive Director with responsibilities that include the development of a community activities and the direction of the Teen Center and its programs. Mr. José Juan Martínez was hired for the position under a service contract agreement. Copies of Mr. Martínez resume and of the job description were distributed to the Board Members.

I. Equestrian Center Riding Club

At a meeting of the committee appointed at the last Board meeting to seek ways to expand horse riding opportunities, Dr. José Benítez expressed his desire that the riding club members be allowed to ride in the green areas along Palmas Drive and in the road itself. It was explained to him that two years ago, based on community complaints raised at the Delegates Committee, and upon the recommendation of the Security Committee, the PHA Board adopted a resolution prohibiting horses in the green areas, cart paths and in Palmas roads for safety reasons and to preclude possible damage to green areas.

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 concluded that PHA should support the identification of additional trails for the Riding Club without compromising the integrity of the common areas or the use of Palmas streets or green areas for such an activity for the reasons already mentioned.

It was explained to Dr. Benítez that the authority of the PHA Board to impose such restrictions emanates from the restrictive covenants that govern the community of Palmas del Mar and empowers the PHA Board to promulgate rules and regulations for the use of common properties and to ensure the well being and safety of the community.

At the last committee meeting, committee members except Dr. Benítez, agreed that riding in the green areas or shoulders of Palmas Drive is not a good idea and agreed to keep looking for alternatives. The Committee welcomed the initiative of having the Forest restored and of having a passive park adjacent to the Forest and also an upgraded Marbella Park. These amenities enhance and go hand in hand with the horse riding activities as it provides nice places to visit during their outings.

The PHA Board concluded that Mr. Julio Bagué and Mr. Jaime Morgan will meet with Dr. Benítez to find ways to close the riding loop that will allow riders to reach the Equestrian Center directly from the Forest which seems as the most pressing need for the Riding Club.

I. South District

At the last Board meeting Mr. Edd Siler presented for the record a series of comments, questions and assertions regarding the report given by Mr. Antonio Maldonado at the PHA Board Meeting held in October 2007 and reflected in the minutes of said meeting. The PHA President asked Mr. Antonio Maldonado, PHA Executive Director, to address Mr. Siler's comments since they posed several questions and raised additional points that required further clarification.

Mr. Maldonado distributed a document containing the original report presented by him at the October meeting, Mr. Siler's comments and Mr. Maldonado's reply to some of Mr. Siler's comments. Mr. Maldonado's comments are highlighted in bold capital letters in the report distributed. For the sake of time, as it was done with Mr. Siler's comments, the Board accepted Mr. Maldonado's comments to be included in the record and they are shown as attachment one (1) to these minutes.

IV. TREASURER'S REPORT – MR. SERVANDO DIAZ

Mr. Servando Díaz, PHA Treasurer, presented a review of the audited financial statements as of year-end and as of January 2008. There are no significant variances from year-end forecast and as of end of January 2008. Mr. Díaz also reported that the annual audit performed by Deloitte & Touché is finished and there are no findings. The audit for the ninth year in a row is a clean report.

Mr. Díaz pointed out that PHA has been using the same auditor for several years. He recommends that PHA explores proposals from other audit companies to select the auditor for 2008. He added that there are smaller companies now that are doing excellent work and should be considered among the proposals. The PHA Board approved Mr. Díaz recommendation.

Mr. Félix Santoni suggested that it is time for the PHA Investment Committee to reconvene and review its investments according to the approved PHA policy. The Board concurred with Mr. Santoni's recommendation and approved the Treasurer's Report.

V. EXECUTIVE DIRECTOR'S REPORT

A. Teen Center

The Teen Center was inaugurated on February 28, 2008 and has been a smashing success with teens primarily attending from the Palmas Academy. The Center is equipped with Plasma T.V., video-games, table games, karaoke and music equipment, computers, tables, chairs, couches and even graffiti scrolls. Behavior rules and hours of operations have been posted. Planning of summer activities for the youth is underway.

B. Perimeter Surveillance System

A final proposal from Virtual Eyes Company was received. It now includes the Sunrise area. The price tag for the project is \$149,900. PHA is coordinating the financing of this project with Banco Popular. The loan should be for \$200,000 to cover unforeseen changes, problems and taxes.

Upon a motion by Daniel Vasse seconded by Edd Siler the PHA Board unanimously approved proceeding with the project and its financial up to \$200,000 through Banco Popular. The Board also approved a resolution authorizing the PHA President and in his absence the PHA Treasurer to sign any bank documents related to this transaction/project.

C. Security Incidents Report

There were five (5) illegal appropriations and seven (7) burglaries reported in February. Four of the burglaries reported took place in abandoned homes in Sunrise. These are repossessed homes that have been left by previous owners with household items still in the property. The other three (3) burglaries took place in Beach Village, Aquabella and Harborlights (one each). There were twelve (12) beach rescues during the month of February bringing the total for the year to sixteen (16). A special rescue board and additional equipment has been acquired for the Beach Patrol.

Fifteen (15) individuals were detained and turned over to the police. A contingency plan has been put together for Easter Week. The plan contemplates additional patrols, bike patrols and a special watch over sensitive areas such as Palmanova Plaza.

D. Recycling Program

Program got underway on February 29, 2008 and is working well. The program started with Palmas Reales, Palmas Plantation, Villa Franca and Haciendas de Palmas. Coordination with the Municipality of Humacao is in progress to broaden the program to cover the entire Palmas community.

E. PHA BOARD Election Results

Mr. Raúl Rivera and Mr. Félix Santoni were re-elected for the position of Director at the PHA Board representing District One and Five, respectively. Mr. Eric Grafals was elected as Director representing District Six replacing Mr. Manuel Morales. The new directors will be seated as members of the PHA Board at the Annual Meeting on March 29, 2008.

F. Swap of Land with the Community Church

As previously approved by the PHA Board and PDMPI, PHA and the Community Church are swapping a small track of land to reconfigure the parcels to better serve each others needs. Also, an easement to the front of the PHA building through the church parcel and an easement through the back of the PHA parcel to the church site are being established. The deed for this transaction is ready for signature.

Upon a motion by Ms. Rita Molinelli seconded by Mr. Raúl Rivera the PHA Board passed a resolution authorizing Mr. Julio Bagué to sign the deed for this transaction.

VI. NEW BUSINESS

A. Mr. Siler’s Presentation on Signs

Mr. Edd Siler made a presentation focusing on the type of signs approved by the ARB that should exist in Palmas del Mar. Mr. Siler’s presentation included a tour of signs throughout the community illustrating the need to fix, clean, standardize and maintain signs in Palmas del Mar. A Sign Committee consisting of Mr. Edd Siler, Raúl Rivera and Daniel Vasse were appointed by the PHA Board to come up with a sign program recommendation to replace signage no longer practical for Palmas del Mar.

Mr. Daniel Vasse pointed out that for a very long time, the Business Association has been advocating for a better Palmas signage system. He is waiting for a formal meeting of the Committee to discuss and develop a proposal. Mr. Julio Bagué indicated that Mr. Siler’s presentation brings up the general problem of signs but that he would like the Committee to come up with a specific program so PHA may consider it in its budget cycle.

B. Academy Carnival

Mr. Julio Bagué reported that the Academy Carnival was a great success netting \$15,000. This was a great community gathering that brought families together and should be encouraged again for next year. Mr. Servando Díaz thanked PHA and PDMPI for the great support provided to this event.

C. Palmas Magazine

The Live & Life in Palmas Magazine has been a huge success. The next edition is due during the last week of March prior to the Annual Homeowners Week activities.

D. Tennis Events

Mr. Edd Siler informed about two great tennis tournaments to be held in Palmas over the next 30 days. The first is the NCAA Women Division One Tournament to be held March 12, 2008 through March 20, 2008. This event brings some of the top universities in the U.S. to play at Palmas del Mar. The second event is the 2008 Puerto Rico Men's \$50,000 Challenger Tennis Tournament to be held April 5 through April 13, 2008. This is the first time this event is held in the Caribbean and will bring to Palmas professional tennis players.

E. ARB Inspector

Mr. Luis Rodríguez asked about the status of the funding for the ARB inspector. Mr. Julio Bagué replied that he will have an answer on this matter at the next board meeting.

F. Health and Prevention Fair

Palmas Academy is holding a Health and Prevention Fair for school students and parents but open to the entire community on April 27, 2008. Information will be offered on health and prevention issues such as drug and alcohol abuse, diabetes hygiene, HIV, etc. Several professional organizations will be addressing these topics as well as offering services such as blood tests, HIV tests and psychological prevention services. This event will be held at the Academy covered court beginning at 10:00 a.m.

G. Mandarin Hotel

Mr. Jaime Morgan informed that after seven (7) years of hard work pursuing this project he is privileged to announce that the Government Development Bank has approved the guarantee of \$142 million and also approved an equity investment of \$12.5 million from the Hotel Development Company which is a matching to the \$12.5 in cash being invested by PDMPI in addition to other assets contributed as equity. What is left now is to finish the negotiations with First Bank, ongoing since January 2008. He hopes to receive final comments in another week and be able to make the big announcement by this summer. According to Mr. Morgan, although this deal is not cast in stone, he feels he is a lot closer to a happy ending.

The PHA Board congratulated Mr. Morgan and wished him well as the Company moves into the final stages of concluding the deal that will allow this important project to get underway.

H. Traffic Circle Fountain

Mr. Morgan informed there is nothing new to report in terms of the final art piece design. However, he has issued instructions to replace the current water spout at the fountain with another type that will provide a more attractive water spray pattern.

VII. ADJOURN

The PHA Board adjourned at 12:30 pm upon a motion by Mr. Félix Santoni seconded by Mr. Raúl Rivera.