

**PHA BOARD MEETING
NOVEMBER 17, 2006
MINUTES**

Members Present

Luis R. Lomba
Jaime Morgan-Stubbe
Salvador Ramos
Edd Siler
Rita Molinelli
Walter Fournier
Manuel Morales Jr
Félix Santoni
Raúl Rivera
Julio Bagué
Luis Rodríguez

Directors Excused

Daniel Vasse
Joseph Maqueda

Other Present

Antonio Maldonado
Shirley Morales
Daisy Díaz
Alex De Jesús

I. CALL TO ORDER

Mr. Luis Lomba, President, called the meeting to order at 9:05 am

II. APPROVAL OF MINUTES

Minutes of the October 13, 2006 meeting were unanimously approved upon a motion by Mr. Manuel Morales seconded by Mr. Julio Bagué. Minutes were amended to reflect the attendance of Mr. Luis Rodríguez and Mr. Julio Bagué who were inadvertently left out of the roster of members present at the October 13, 2006 meeting.

III. PRESIDENTS REPORT- MR.LUIS LOMBA

a. PHA Building

Construction continues at a good pace, on time, on schedule and within budget. The concrete phase (“hormigones”) is 90% completed and the steel roof structure should commence shortly. The sanitary connection between the building manhole connection and the main line across the academy is in progress. This work is being done by PDMU. Work on the air conditioning system for the meeting rooms is also underway. Overall the project looks good and the structure is already looking impressive.

b. Artificial Reef Project

The Artificial Reef committee met and a plan of action is already in progress. An interagency meeting sponsored by the Corps of Engineers is being coordinated as well as

PHA BOARD MEETING
NOVEMBER 17, 2006
MINUTES

a presentation to the DNR Secretary. The Committee also continues to look at possible construction options and associated costs.

c. Dialogue Committee – Beach Access.

Ms. Rita Molinelli reported that the Committee met with the Candelero Point developer and his architects regarding the establishment of easements in the area. Subsequently, the Committee received a proposal that shows a four (4) meter easement between Crescent Beach and the Punta Candelero parcel. It reflects plans for golf-cart parking at the beginning and at the end of the easement with a turn-around loop at the beach side. The proposal also illustrates another access at the north side of the parcel being provided by PDMPI. In recent discussions with Carlos Lázaro, the developer's lawyer, he indicated that the turn around loop at the end of the easement may not be possible due to construction limitations in the separation zone between the project and the maritime zone.

Mr. Raúl Rivera pointed out that such limitations do not apply as long as the construction within the separation zone does not exceed one (1) foot in elevation. Ms. Molinelli added that she requested from Mr. Lázaro to give consideration to expand the easement from (4) to six (6) meters as required by Regulation No. 4 if the turnaround area was not feasible. The Committee has been waiting a call from Mr. Lázaro to make a final recommendation to the Board.

d. Insurance

At the last Board meeting the subject of PHA insurance policies was addressed and concluded to appoint a Committee comprised of Félix Santoni, Walter Fournier and Joseph Maqueda to review PHA insurance requirements, pre-qualify potential interested brokers, obtain insurance proposals and make a recommendation to the PHA Board for final broker selection.

Mr. Félix Santoni reported that the Committee met and three broker firms (Marsh-Saldaña (PHA's current broker), Vidal & Rodríguez and Mr. Xavier González were pre-qualified. Thereafter, the Committee requested quotations from the brokers. Mr. González declined to participate.

Marsh-Saldaña and Vidal Rodríguez submitted quotations that reflected a price package difference of \$189. The breakdown of the quotations is as follows:

PHA BOARD MEETING
 NOVEMBER 17, 2006
 MINUTES

	<u>Marsh-Saldaña</u>	<u>Vidal & Rodríguez</u>
Property and General Liability	\$41,262	\$ 34,480
Umbrella (\$4 M)	5,028	7,008
D & O	4,238	5,913
Automobile	<u>2,659</u>	<u>5,597</u>
 Total Program Premium	 53,187 =====	 52,998 =====

There was also a difference in the coverage offered in the following items:

<u>Item</u>	<u>Marsh</u>	<u>Vidal</u>
Traffic Signals	\$132,000	\$100,000
Billboard	26,000	-0-
System Breakdown Deductible	-0-	500
D & O Retention	5,000	10,000

Although the total quotations were basically the same, there was a difference in costs between specific insurance coverage such as Property and General Liability, D & O, Vehicles and Umbrella.. Nevertheless, Mr. Santoni reported that the Executive Committee felt that having two brokers and several insurance companies managing our insurance needs was not a desirable situation, particularly in view that the PHA management felt that its broker of record has given PHA continuous outstanding service for 17 years. Furthermore, the possibility of breaking up the insurance areas by brokers was not a consideration by the Board on its instructions to the Committee and this requirement was not included in the request for quotations. Also, the Executive Committee suggested either making a decision based on the quotations as submitted, or to go back to Marsh-Saldaña, in deference for being PHA's broker of record for 17 years and, without giving them competitive information, ask them if they could improve their proposal.

Mr. Santoni continued to report that, based on the Executive Committee discussions and management's level of satisfaction with Marsh services, he went back to Marsh-Saldaña and requested them to improve their quoted amounts or otherwise PHA would have no alternative but to change brokers. Subsequent to that telephone call, a revised quotation was received from Marsh-Saldaña that reflected a \$3,800 reduction from their previous proposal bringing the total package cost to \$49, 387.

PHA BOARD MEETING
NOVEMBER 17, 2006
MINUTES

Mr. Santoni indicated that in his opinion, PHA will be better served by making a decision based on the total price offered by Marsh-Saldaña because in reality a significant saving will be achieved over the previous year while retaining the services of a broker that has served the Association in an outstanding fashion for many years.

Mr. Walter Fournier indicated that Marsh-Saldaña received an unfair opportunity with a second chance to submit a revised quotation. In Mr. Fournier's opinion, the decision should have been based on the initial quotations submitted. Therefore, Vidal Rodríguez would have been his broker of choice. Also, Mr. Fournier pointed out that except for the D & O coverage, Vidal's offer was backed up by a single company (MAPFRE) one of the most serious and strongest in the market versus two companies by Marsh. Additionally, Vidal's proposal gave a lower rate on the Property portion of the insurance which was lower by \$7,000 compared to the same portion offered by Marsh. That could mean additional savings if the choice was to break out the parts of the insurance program among the brokers and assuming that such an apportionment was acceptable to them.

Mr. Lomba pointed out that if original proposals were going to be the only consideration, then the question to consider should be whether it would be appropriate to change our broker of record for \$189. That was the difference between the two package proposals. Last year the decision was to retain Marsh-Saldaña when the difference between Marsh proposal and Vidal's proposal was \$3,400. That was a conscious decision by the Board in recognition of the outstanding service provided over the years by its broker of record. This year the proposals were basically the same and in Mr. Lomba's opinion did not merit a change in brokers based on a very minor total price difference alone.

Mr. Julio Bagué pointed out that, unless there was some other reason, the lowest bidder should be awarded the insurance package. Mr. Santoni clarified that this was not a strict close bid procedure where the lowest bidder would be awarded the business. Quotations were requested so that the Board would consider the offerings upon which to base a decision. But the decision was not going to be based solely on price. Areas such as quality of service play a very important role in this decision. More so when the actual service provider has set a very high bar by providing a sustained level of excellence in service. Mr. Santoni restated the fact that at no time he had disclosed to Marsh Saldaña the amounts quoted by Vidal & Rodriguez.

Mr. Raúl Rivera questioned why, if the Association is satisfied with the services being provided by its current broker, it would even consider procuring those services with someone else. He feels this is not a normal business practice. Changing brokers and insurance companies every year does not make you an attractive potential customer to good companies that would like to bring you aboard and retain you as a permanent client.

PHA BOARD MEETING
NOVEMBER 17, 2006
MINUTES

Mr. Julio Bagué pointed out that bringing additional brokers into the process has resulted in the lowering of premiums offered to PHA. In this regard, the process has served its purpose. If brokers are pre-qualified, then one not only choose the best competitors in the market, but also one insures that they are capable of delivering a quality service. PHA expects excellence from this type of service providers.

Manuel Morales pointed out that management should always have the prerogative of going with service providers they have worked for years and have shown loyalty, dependability and trust. Those things play a very important role in management decisions when it comes to customers and to service providers.

Ms. Rita Molinelli indicated that it was important to note that it was not Marsh Saldaña who initiated the call to try to change or affect the process. A member of this Board who was commission to pursue further options that would induce further economies, took the action. In this regard Ms. Molinelli considers there were no procedural errors and the actions taken by Mr. Santoni were appropriate and within the scope of the task he was given.

Mr. Santoni reiterated that, based on the discussions at the Executive Committee where there was a sense of excellent satisfaction with the services being provided by Marsh-Saldaña, it was important to let Marsh know that if they could not come up with a better proposal than the one originally forwarded they ran the risk of losing the business. Thus, Mr. Santoni indicated, he took it upon himself to deliver that message which was well received and yielded the desired results. This was not a close bid process or a “proceso de subasta”. It was done in response to a broker who had requested a letter of exclusivity which led the Board to open the process to consider other proposals. Nevertheless, that did not mean, nor was the Board decision, that the package will necessarily be awarded to the lowest proposal. There were other considerations such as the level of management satisfaction and the quality of service provided that would play a major role in the final decision by the Board.

Mr. Santoni concluded by pointing out that Marsh-Saldaña has been providing an excellent service and responded well to his request for a better offer. In that sense they have fulfilled all the requirements PHA levied upon them as their insurance provider including price quotes lower than ever before. Thus, based on the numbers provided and management’s satisfaction with the services being provided, he recommends continuation with Marsh-Saldaña as PHA’s broker of record.

Finally the PHA President submitted the selection of its insurance broker to a vote and the PHA Board selected Marsh-Saldaña as its Broker of Record for 2007. Letters will be sent to the proponents advising them of the decision and that next year PHA will follow a

PHA BOARD MEETING
NOVEMBER 17, 2006
MINUTES

similar process but the decision will be made based on the best quote and the capability for providing the quality of services PHA expects in this area. There will be no opportunities given to revise initial proposals once submitted.

E. Letter from Mr. James Harvie

Mr. Lomba informed the Board that each of the PHA Board of Directors received a letter from Mr. James Harvie, President of Candelerio Point Partners, dated November 6, 2006. In his letter Mr. Harvie makes reference to the lawsuit brought about by PHA as a result of the creation and the transfer of the Marbella Park to the Marbella Club. He also indicated that, although he believes there is no basis for the lawsuit, he would like to meet with the PHA Board of Directors to discuss the issues and attempt to resolve any perceived dispute.

Mr. Lomba added that this is not an alleged dispute but a legal case before a court of law, subject to that legal process. After receiving the letter, PHA consulted with its lawyers handling the case and they have advised that the PHA Board is not the proper place to air out the case. According to Mr. Lomba this is a real case involving a very serious matter that, after years of false promises and misrepresentations, left PHA with no other recourse, but to go before a court of law to get the matter resolved. Therefore, under legal advice, PHA must decline any discussions at the PHA Board level to resolve the matter. Any negotiations, offers, or proposals out of court may avert the legal process. Therefore, this subject should be raised through the respective legal counsels. PHA will always be willing to entertain any serious proposals to resolve the case but they must be meaningful proposals and channeled appropriately.

Ms. Rita Molinelli pointed out that PHA is not refusing to enter into a dialogue; however, such a dialogue should be based on specific proposals. She feels that very little will be accomplished by inviting Mr. Harvie to address this matter with the Board. The issues and the demands surrounding the case are clearly outlined in the lawsuit. Any proposals should address the demands and specific issues. In her opinion, for the Board to sit down and discuss the merits of the case with one of the defendants is not the proper way to handle this matter for any of the parts involved in the case.

Mr. Morgan stated that it is up to the client, not to the lawyers, to decide whether or not it wants to sit down and conduct settlement negotiations with the other parties. There is no legal impediment and it would be more productive and efficient to create a Committee of the Board and authorize them to reach a settlement with the other parties.

Ms. Molinelli questioned Mr. Morgan if, as defendants in the lawsuit, PDMPI or Mr. Harvie had a specific proposal in mind. Mr. Morgan indicated that such a proposal could be developed as a result of amicable discussion of possible alternatives.

PHA BOARD MEETING
NOVEMBER 17, 2006
MINUTES

Ms. Molinelli indicated that PHA demands are clearly stated in the lawsuit. If Mr. Harvie or any other defendant feel they have a genuine out of court settlement offer that could satisfy the plaintiff, such an offer should be forwarded by any means they feel appropriate. Once received, the offer will be considered, and if it has merit, then there is a possibility that the parties could sit down to negotiate further. However, in her opinion, to sit down to try to come up with unspecified alternatives will only undermine the legal process. In Ms. Molinelli's view, none of the parties should allow that to happen.

Mr. Jaime Morgan took exception to Mr. Lomba's remark of "false promises" contained in Mr. Lomba's statement. Mr. Lomba replied that he used the words "false promises" because it was always understood that a park adequate for the community was to be built and that such a park was going to be transferred to PHA. However, what was built is not adequate for a community like Palmas and it was transferred to the Marbella Club instead of PHA. Said transfer had to take several months to complete; however, PHA was kept in the dark and was never advised of any negotiations although the park had been an issue of contention with the Marbella developer for years.

Mr. Morgan underscored the point that the park was transferred to the Marbella Club, but for the use of the entire Palmas community.

F. Traffic Study

The Infrastructure Committee was presented a detailed report of the Traffic Study commissioned by PHA. The conclusion of the meeting was that PDMPI would submit in writing a list of those items where there was disagreement with other studies made previously by them so that the PHA consultant may consider such disagreements. Also, PDMPI consultants were to meet with the PHA consultant to iron out any differences, as well as to insure that a good product, useful to PDMPI and to the community, will result.

Mr. Jaime Morgan indicated he is drafting the comments himself but he doesn't have that much time to dedicate to this matter. Mr. Morgan also indicated that since his consultants do not speak Spanish the report will need to be translated to English and that might also take some time. Nevertheless, he expects to have something for PHA consultants by year end.

Mr. Lomba indicated he would wait until year end before deciding on the next course of action.

IV. 2007 PHA BUDGET – MR. SALVADOR RAMOS

Mr. Salvador Ramos, PHA Treasurer presented a comprehensive report detailing PHA's year end financial position as well as all aspects and details of the proposed 2007 budget.

PHA BOARD MEETING
NOVEMBER 17, 2006
MINUTES

The budget was elaborated by a Budget Committee consisting of Mr. Luis Lomba, Mr. Salvador Ramos, Mr. Julio Bagué, Mr. Victor Nieto, Mrs. Shirley Morales and Mr. Antonio Maldonado.

In his presentation, Mr. Ramos underscored that the Association remains in a solid financial position. It is managed in an efficient and effective manner with excellent fiscal controls in place. The community continues to experience a steady growth in residential units as a result of the high construction tempo felt in Palmas del Mar. This transitional growth results in expanded community service requirements, and thus an increase in the Association's operational cost are expected in 2007. Also, recent significant changes in the economy such as the new Puerto Rico Sales Tax Law (7% sales tax) and minimum wage adjustments will have a direct financial impact upon the Association and are reflected in the 2007 budget.

In order to maintain and improve the level of services while sustaining its strong financial position and after 10 years of no increase in the annual assessments a minor (6%) adjustment will be reflected in the 2007 fees. As in years past, a discount in assessments will be offered to homeowners paying the complete annual assessment before January 31, 2007. The discount will be 2.5 percent. A 10% annual charge will be applied to assessments in arrears and 25% to 33% is charged in legal fees for collection cases taken to court. Budget provisions for Capital and Special Projects and for Future Major Repairs and Replacements are contemplated in the 2007 budget as required by the PHA Covenants.

Mr. Jaime Morgan indicated that, in order to be consistent with his previously stated position, he must object to the specific budget items that dealt with legal services and the acquisition of the Palmanova Park. In terms of legal expenses it is his position, as should be reflected in past minutes, although he claims the minutes are sometimes edited, that expenses related to the Marbella Park lawsuit could be avoided by negotiating an acceptable solution to the controversy with the parties involved in the dispute. There is a willingness to pursue such negotiations and PHA should not pass the opportunity to reach a solution this way. Regarding Palmanova Park, it is his position that this parcel has no other market value as it cannot be used for anything but a park. Efforts should be directed to acquire the parcel for a nominal value of \$1 and the money earmarked for its acquisition be used for improvements of the park once acquired.

Mr. Lomba replied that, regarding the Marbella lawsuit, the subject has been addressed by the PHA Board. Regarding the Palmanova Park, as discussed at the PHA Executive Committee, PHA will continue to negotiate with the owner of the parcel attempting to obtain the best possible deal.

PHA BOARD MEETING
NOVEMBER 17, 2006
MINUTES

The PHA Board approved the 2007 Budget as presented by the PHA Treasurer upon a motion by Mr. Manuel Morales seconded by Mr. Julio Bagué. The PHA Board thanked Mr. Salvador Ramos, Mrs. Shirley Morales and the other Budget Committee members for their outstanding work in preparing the 2007 PHA Budget.

Mr. Lomba then took exception to Mr. Morgan's remark alluding to the editing of the minutes. Mr. Lomba indicated that the minutes are carefully prepared by PHA using the recording devices and notes of the meetings. Subsequently, the PHA Executive Director and the Secretary of the Board review these minutes. Once reviewed, they are sent to each individual Board member prior to their presentation for approval by the PHA Board. Amendments or exceptions to the minutes are approved by the full Board and such changes, comments or exceptions, are accurately recorded in the minutes. Once approved, the minutes cannot be changed. Originals of Board minute meetings are kept in perpetuity as part of the PHA records. Said minutes are authenticated by the Secretary of the Board.

V. EXECUTIVE DIRECTOR'S REPORT

A. Security

Security statistics reflect zero homicides, rapes, robberies or vehicle thefts reported in Palmas year-to-date. During the month of October three (3) burglaries were reported. Two of these burglaries took place in Maralago where three (3) T.V. Plasmas were stolen. The T.V.'s were subsequently recovered by the Police C.I.C. The other burglary took place at the Palmanova supermarket. Sixteen (16) illegal appropriations were reported during the month of October. Four (4) of these illegal appropriations took place in residential areas while the rest were scattered among construction sites, parking and commercial areas to include the Hotel.

A series of meetings are being held between the new PHA Security Director and the various regime administrators and regime Boards. These meetings are aimed toward reviewing internal regime security procedures and to coordinate security efforts in order to enhance overall Palmas security. Also, mmeetings are being held with the various security companies operating within Palmas in an effort to complement all services and enhance Palmas overall security through better coordination with individual security services.

A report of the Security Survey performed by Protection Designs, Inc. in September 2006 has just arrived. This evaluation was commissioned by PHA to an outside consultant expert in the field to evaluate physical, operations and administrative security within Palmas del Mar. Also, to provide an overall security risk assessment of Palmas del Mar.

The report will be evaluated by the Security Committee and will then be presented to the PHA Board. Copies of the report are being distributed to the Security Committee members and to the PHA Board of Directors.

The report validates some of the concerns expressed by the Community and by some Board members. It is a good working tool that can be used to build upon and improve the security services.

Mr. Jaime Morgan indicated that he has been very concerned with the quality and efficiency of the security services. He asked that the new security director, either himself or with outside help, certifies that:

1. Security guards hired by Palmas Security Services are being drug tested and are clean of any criminal record.
2. He is satisfied and participates with the type of training the guards are receiving. Often guards do not know how to direct people to certain points within Palmas which causes a bad impression and is reflective upon the type of training they receive.
3. Patrols conduct their rounds in accordance with a specific schedule and are not parked at a given place talking with their personal cellular phones, or to a friend.
4. Proper uniforms are in use and that people look sharp at all times.
5. More interaction is achieved with other companies that provide security services within Palmas del Mar.
6. Evaluate having PHA's owned personnel manning the front gate. The problem of outsourcing the services is that you lose accountability and effective control of your resources.

B. 923 Upgrade

This project has entered its final stage. Access Control Equipment is in the process of being installed and communications equipment is being relocated from the old guardhouse to the new one. Demolition of the old guardhouse, installation of illumination and completion of pavements will follow.

C. Beach Restoration Project

This project is complete except for the installation of a small pedestrian bridge to ease the access for people visiting the beach. Now people have to walk through a mud area created by a water drainage coming from the Fox property adjacent to the beach access. Installation of the bridge is pending a letter from PDMPI, owner of the green area, giving its approval for PHA to complete the project.

PHA BOARD MEETING
NOVEMBER 17, 2006
MINUTES

D. Evening of Jazz

The jazz festival held at the Sheraton Hotel on November 12, 2006 was a huge success and a superb event. Excellent participation was noted from the Humacao community. The event was also a fund raiser activity for the Palmas Academy.

VI. OTHER BUSINESS

Mr. Jaime Morgan informed the Board that the Mandarin Hotel is going through a value engineering process in an effort to lower costs without affecting Mandarin standards. Consideration to integrate local architect firms with Mandarin architects on this effort will be evaluated. The goal is to arrive at a cost package that may be financially attractive and viable. There are no time-tables associated with this process.

In regard to the water fountain in Palmas Drive circle, Mr. Morgan indicated he continues to look for options. PDMPI has contacted Architect Gabriel Berritz to consider the project and present a proposal.

VII. ADJOURN

The PHA Board adjourned at 11:30 am upon a motion by Mr. Edd Siler seconded by Mr. Julio Bagué.