

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

Directors Present

Luis Lomba
Jaime Morgan Stubbe
Edd Siler
Salvador Ramos
Frank Bonnelly
Luis Rodríguez
Julio Bagué
Lilliam Morales
Raúl Rivera
Félix Santoni
Manuel Morales

Directors Excused

Juan Walker
Alfonso Lozada

Others Present

Antonio Maldonado
Daisy Díaz

I. CALL TO ORDER

Meeting was called to order at 8:47 a.m. by Luis Lomba, President.

II. APPROVAL OF MINUTES

Minutes of the January 27, 2006 meeting were approved upon a motion by Julio Bagué seconded by Lilliam Morales.

III. PRESIDENT'S REPORT

A. Candelero Park

Since the last Board meeting Tony Maldonado met with Jim Harvie to discuss a possible temporary access to the Candelero Park next to Marbella. Work has begun on temporary access for golf carts. The PHA Board also received a notification from Jaime Morgan informing that the Candelero Park Parcel has been transferred to the Marbella Club Homeowners Association. PHA has received a copy of the deed of transfer that states, among other things, that the park will be available for use by Palmas Homeowners and to the Public in general.

B. PHA Building Construction contract was awarded to Berrios Construction. We have a construction

permit and the loan to finance its construction will be executed on Friday, March 17, 2006 (today). A

pre-construction meeting was held with the ARB. Fencing of the construction site and earth movement should commence next week.

C. Traffic Study

As approved by the Board contract for the traffic study was awarded to PLC Consulting Engineers and Planners. Work is already underway. Completion time is approximately 12 weeks.

D. Forest

Jaime Morgan has informed the PHA Executive Committee that they do not have the matching funds for the restoration of the forest in this year's budget. Mr. Morgan indicated he will continue to monitor PDMPI capital expenditure budget to see if there are any funds that could be used for this project. Also, PDMPI will consider the possibility of transferring the Forest to a trust under the P.R. Conservation Trust Law. He will maintain the Board informed of any progress on this matter or availability of funds later on during the year.

Mr. Julio Bagué expressed his disappointment that this project is unable to move forward after the community waited for so many years for access to the forest. Expectations were to have this project done in this year.

E. Antenna Parcel

Per previous agreement with PDMPI the parcel has been cleaned and is ready for laying out the golf cart parking and the landscaping. We have received a draft copy of the deed of transfer. As soon as it is signed, the remaining work will be completed.

F. Election of New Directors

In accordance with the PHA Covenants and By-Laws, elections were held in District Three (Marina Area) to elect a new director to replace outgoing director Juan Walker. Mr. Walter Fournier from San Marcos was elected as the new director from District Three. Also, Mr. Daniel Vasse, was elected as the director representing the Commercial District in the PHA Board replacing outgoing director Frank Bonnelly. Both, Mr. Fournier and Mr. Vasse, have previous experience at the PHA Board. The new Directors will be seated at the annual meeting to be held on April 22, 2006.

G. Artificial Reef

According to a preliminary report received from Dr. Alfredo Torruellas work is proceeding at a fast pace. Five modules of the study phase are ready or complete: batimetry, offshore wave patterns, waves at the shore line, currents and movement of sand transported by water. He believes that results so far are expectacular since he has been able to identify erosion hot spots and the control of currents. Everything is proceeding according to the plan and he expects that the study and design should be ready in a month. We should expect a final report in two months.

Luis Rodriguez indicated that the Thaliasia study is being delayed by weather conditions such as rough

seas and water turbidity. As soon as the weather permits work will be completed. The task takes approximately one week to complete.

IV. TREASURERS REPORT

Mr. Salvador Ramos presented the Treasurer's Report which included the PHA Financial Statements as of the end of February and the year 2005 Audit Report. There were no major variances in the monthly or year-to-date figures and the Association continues on a solid financial footing.

The Financial Audit for 2005 was conducted by Deloitte and Touche. The auditors have rendered an unqualified report with a clean opinion and without findings. The report reflects favorable upon the manner in which PHA is handling its financial affairs.

Regarding the investment policy Mr. Ramos reported that he continues to work on this item. He feels that a cash management policy is an integral part of the overall investment policy in order to tie the budget and PHA's long-term financial objectives. He is working on a schedule of investments; mostly CD's; spreading out investments on \$25,000 increments maturing 30-60-90 days and so forth. This way you can maximize your rates for short term and long term investments without impairing your cash flow or cash availability. Mr. Ramos indicated he is using the feasibility study done for the PHA building for his cash flow scenarios. He expects to have this investment strategy complete within the next two (2) months.

Mr. Lomba thanked Mr. Ramos for his excellent work with PHA's budget and for his efforts in developing a sound investment strategy for the Association.

Felix Santoni asked for clarification regarding the difference in total assets and total liabilities shown in the audited financials and end of February 2006 financials. Subsequent to the Board meeting, Mr. Ramos provided Mr. Santoni and the Board with an appropriate explanation.

The PHA Board approved the Treasurer's Report upon a motion by Frank Bomielly seconded by Lilliam Morales.

V. EXECUTIVE DIRECTOR'S REPORT

A. Security

Although Palmas del Mar continues to enjoy a very safe environment in teens of major crime an undesirable trend has been noted in teens of illegal appropriations in construction areas. Fifteen (15) illegal appropriations were reported in February most of them in construction projects such as Harbour Lakes. It appears that pilferage is taking place within the work force. Meetings have been held with Project Managers in an effort to seek ways to curtail this trend by instituting additional security measures at construction sites.

Also, two burglaries were reported during the month of February. An individual responsible for one of these burglaries was detained by PHA Security and turned over to the State Police. Recently, this

individual was released from prison for committing the same type of crime.

B. 923 Project

Value engineering is being done to bring costs within budget. The equipment for the access control system is on order.

C. Main Gate Upgrades

Installation of new luminaries should be complete by March 22, 2006. Landscaping upgrade is in progress. The Access Control system new equipment is on order and is expected to arrive by April 5, 2006.

Raúl Rivera informed that adjustments may be required on this project in order to accommodate the entrance to the PHA Building and to the church parcel. A meeting will be coordinated with the church construction committee, PHA and PDMPI representatives.

D. Graffiti

Clean up of graffiti in electrical units was complete. PREPA provided PHA with the appropriate paint and PHA employees did the work. Also, the bridge in 906 was cleaned.

E. Homeowners Week Activities

Monday, April 17: Security Committee Meeting

Tuesday, April 18: Delegates Committee Meeting

Wednesday, April 19: Ladies Club Fashion Show & Luncheon, Tennis Tournament and Executive Committee Meeting

Thursday, April 20: President's Reception

Friday, April 21: PHA Board Meeting, Golf Tournament and Homeowner/s Party at the Four Points Sheraton Hotel

Saturday, April 22: Annual Meeting, PHA Board Organizational Meeting and the Palmas House Tour in the afternoon.

VI. OLD BUSINESS

Jaime Morgan indicated that the Mandarin Project is moving forward. PDMPI is updating costs to continue negotiations with banks.

Mr. Luis Rodriguez informed that the PRASA hearings on PDMU request for a change in rates is scheduled on May 2, 2006. He also informed that there has been a change in judge that will preside over the hearings. Evidence is being gathered to support PDMU case. Documents are being exchanged with PRASA.

Mr. Luis Lomba informed that the laboratory results for the PDMU's water well have been received.

The results show that the water is brackish (900 ppm). In order to be potable it needs to be less than 500 parts per million (ppm). PDMU is writing a scope of work to determine costs and feasibility of an investment to bring water within potable standards. If the costs of producing potable water is less than the costs of PRASA for same amount of water this alternate source of water may be favorably considered.

VII. NEW BUSINESS

A. PDMU Issue

Julio Bagué made the following statement for the record:

"I wish to report to the Board on a matter regarding a delicate issue at PDMU. As you know the community subscribers are represented at the PDMU Board of Directors by Luis Lomba, Tony Maldonado and I who were elected by the community to represent their interests and those of the PDMU Corporation at the PDMU Board (Class A Directors).

Recently the PDMU General Manager, Heriberto Silva resigned from his position in PDMU. The PDMU Class A Directors objected the process to find a replacement for Mr. Silva. In our view, the process did not comply with corporate procedure which details I do not wish to discuss at this forum. This process results in the hiring of a replacement for Mr. Silva at a considerably higher compensation package. In our belief this action is contrary to the best interest of the corporation and its subscribers. Unfortunately, the Class A and the Class B Directors were not able to solve their differences on this issue.

These differences resulted in the Class A Directors recurring to the court of law to request an injunction to stop the process while a satisfactory solution could be found, thus protecting the interest of the corporation and its subscribers. A preliminary injunction hearing took place yesterday afternoon and the judge gave instructions to the parties to resolve this issue. We are into that process now and we are not at liberty to discuss the details of those proceedings. It is our hope that we can find consensus among the PDMU Board Members and get past this issue for the good of the community we serve.

That is all I have to say. This subject is not open for discussion. I am merely informing this Board who happens to represent the same people that the PDMU Board serves".

Mr. Jaime Morgan objected to Mr. Bague's comments. In his view the statement points out that certain irregularities may have occurred but then shuts the door to any further discussion. Mr. Morgan also indicated that the judge refused to issue the preliminary injunction requested because it did not comply with the preliminary injunction requirements. He does agree and hopes that both Class A and Class B representatives at the PDMU Board can reach a consensus on this matter for the benefit of the entire Palmas community.

Mr. Morgan presented a motion requesting that Mr. Bague's comments regarding certain alleged irregularities be stricken from the record. Luis Rodriguez seconded the motion. When submitted to a vote the motion did not carry as four PHA Board Directors voted in favor, six opposed and one abstained. Subsequently, Mr. Bague agreed with Mr. Morgan to modify his statements removing reference to irregularities and such an agreement is reflected in Mr. Bague's statement quoted above.

Mr. Raúl Rivera raised a question regarding who is paying for the legal representation of the PDMU Class A members in this litigation. Mr. Bagué indicated that a motion was presented by the Class A Members at the PDMU Board requesting that the legal fees for this issue be paid by PDMU since, as approved by the PDMU Board, PDMU was going to pay for the representation of the Class B members on the same issue. However, according to Mr. Bagué, in a vote of 4 to 3 (all PDMU Class B Directors voted against the motion) the PDMU Board denied the request. As it stands, the PDMU Class A Directors are paying the legal fees.

Mr. Rivera then presented the following motion: "In view of this situation and the fact that Class A members represent the interests of the same community the PHA Board represents, I make a motion that the legal fees for the PDMU Class A members in this litigation be paid by PHA, if needed. Manuel Morales seconded the motion.

Mr. Morgan inquired if such expenses were contemplated in PHA's budget and if the budget has to be amended to accommodate such a request. It was explained that the PHA budget contains \$75,000 which is sufficient to cover any type of legal representation contingency. This budget line item is not earmarked for anything in particular but for general PHA legal expenses, thus no amendment to the budget is necessary. Experience has shown that this budget item has never been exceeded.

Mr. Salvador Ramos pointed out that the minutes are an official record of the PHA Board. What is recorded may affect the reputation of its Board members. If allegations on this issue are proven wrong or false he believes that PHA Board may be opening itself to a lawsuit for slandering and personal damage of individuals. Mr. Lomba clarified that no-one at this PHA Board meeting has made any slandering comments or personal attacks on anyone in particular. The comments made by Mr. Rivera allude to a process within the PDMU Board and his statement, as the record shows, does not contain any derogatory remarks. Mr. Manuel Morales added that Mr. Bagué's comments were in regard to procedural matters within the PDMU Board that were not regular, and not allegations of any wrong doing.

Mr. Ramos also cautioned about PHA engaging in extending legal support for this type of issue. Mr. Lomba noted Mr. Ramos' comments for the record.

B. Delegates Committee

Julio Bagué reported on the proceedings of the last PHA Delegates meeting. Attendance was excellent. The electronic billboard is helping in encouraging the delegates to attend the meeting.

Regarding the Candelero Park, and at the request Walter Fournier, the Delegates made a motion requesting that a sub-committee be appointed to study the Deed transferring the park to Marbella Club. Since already a copy of the Deed was submitted to PHA, the Board concluded to send the Deed to PHA's legal counsel for review and action as appropriate.

Mr. Morgan informed the Board that PDMPI's decision to transfer the park to the Marbella Club instead of PHA was based on the following:

1. Mr. James Harvie, Marbella Developer, had approached PDMPI several years ago and made the

request that the park be transferred to the Marbella Club. In the Marbella purchase contract Mr. Harvie, President of Candelero Point Partners (as Marbella Developers) had agreed to develop the park on behalf of the homeowners.

Mr. Harvie's request for transfer was based on his concern that the maintenance/ upkeep of the park by PHA would not be up to par with the Marbella Club landscaping maintenance standards. Thus, he volunteered to assume all responsibilities for establishing and maintaining the park on behalf of the entire community.

2. PDMPI concurred with Marbella's Club request and placed very strict conditions on the transfer including:
 - a. The park will be for the use of the Palmas del Mar community. Access shall be given to the community at all times.
 - b. The park cannot be used for profit, no permanent structures can be built, nor can it be used for business.
3. If imposed Restrictive Covenants are violated by the Marbella Club the transfer will be nullified.
4. Guarantee the Palmas community that the park will be maintained in accordance with Marbella Club landscaping standards.
5. Marbella Club will assume all expenses and liabilities associated with the park.

Mr. Morgan further indicated that this transfer should not be a reflection of the manner that PHA takes care of common properties within Palmas.

Mr. Felix Santoni questioned the logic of transferring a piece of common property to a particular association supposedly because they can take better care of it, when there is a very strong homeowners association representing the entire community to whom, in accordance with the Master Covenants, these properties should be transferred to. Mr. Morgan replied that Marbella is the most expensive regime in Palmas thus it can afford to pay for this maintenance without a problem. He believes that the community should give them the opportunity and if it does not work, then other options should be then be considered. Mr. Santoni indicated that the transfer should have gone to PHA that is the entity representing the interests of all homeowners in Palmas. Mr. Morgan suggested that PHA approach directly Mr. Harvie on this matter.

C. *Gate Engineering*

Mr. Morgan briefed the Board on a fraud indictment proceeding in the federal court against Mr. Albith Colón, President of Gate Engineering. Since in the past PHA has done business with Mr. Colón, he recommends that the Association stays away from doing any further business with that person. Mr. Morgan also suggested that future contractors be checked to insure that their record is clean before they are engaged to do business with PHA. A clause should be included in PHA contracts where contractors certify that they are not being subject to any sort of criminal investigation, tax, bankruptcy

proceedings or illegal practice investigation. The Board concurred with Mr. Morgan's recommendation.

D. Safety Issue

Mr. Siler pointed out that the golf cart path near the Palmas Drive/ Palmas Inn intersection comes very close to the road. He has witnessed close calls where trucks have come very close to impacting golf carts at this point. Same situation occurs in the Aquabella area. Thus, he suggests that PHA should consider placing some sort of flexible barrier in that area to avoid a possibly accident. Mr. Morgan suggested that this type of remedy must meet government standards and approval by the corresponding Highway Authority.

Mr. Maldonado indicated that, because it is impossible to cover all possible contingencies or situations dealing with the operation of golf carts, PHA golf-cart registration contracts assign all the responsibility for golf carts to the owners of these vehicles. This includes releasing PHA from responsibility from accidents, hold-harmless clauses and requiring public liability insurance with PHA as additional insured.

VIII. ADJOURN

The PHA Board adjourned at 1030 a.m. upon a motion by Julio Bagué seconded by Frank Bonnelly.