Association of St. C Condominium Owners

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NEWS FLASH: Fee Increase Starting January 1, 2022

Dear St. C Owners:

As you no doubt are aware, keeping St. C running on a daily basis is no small job, given the age of our buildings and the harsh environment in which we're located. Ongoing maintenance, capital projects, staff salaries (including 24/7 security), contractor fees, insurance, electricity, water treatment and water, cable, pool upkeep and landscaping – these services all cost money and are paid for with the monthly association fees collected from all owners.

Unfortunately, the facts are that expenses are higher than the income generated with the monthly fees. St. C has been operating at a loss for the past few years, and clearly this is not a sustainable operating model. Based upon the recommendation of the Financial Committee, the Board of Directors agreed to move forward with the decision to increase fees by $200 per month per unit, effective January 1, 2022. The members of the Board understand that a $200 monthly increase is not a desirable increase and may be a hardship for some owners. This is not a decision taken lightly. As owners ourselves, we would prefer not to raise our fees. However, there is little other choice if we want to ensure the effective functioning of the association and St. C's ongoing operations.

In consideration of the concerns and feedback from owners, the members of the Board believe it may be in the best interest of the Association members to increase the monthly fee structure with a two-step approach. ***Therefore, the motion that passed during the Board of Directors Meeting on 12/8/21 to increase the monthly Owners' fees by $200 effective January 1, 2022 has been amended to now state that the $200 increase for 2022 will be made with an increase of $100 effective 1/1/2022 (total due $750) and then with an additional $100 increase effective 7/1/2022 (total due $850).***

One of the most important responsibilities of the St. C Board is looking after the fiduciary concerns of our association, and we take that duty very seriously. However, even with this stepped approach, as a Board, we must continue to work towards achieving a balanced budget while we continue to strive to identify/eliminate any unnecessary expenditures.

Since the 2021 election, Board Members - along with the Finance Committee - have expended considerable time and effort on forensic financial research to understand our financial situation, how we got where we are, and subsequently plan a fact-based path forward to renewed financial health and sustainability.

What are the facts behind our decision?

1. Expenses continue to increase while our income hasn't

While monthly fees haven't been increased in years—and, in fact, they were reduced in 2018—expenses continue to increase. Materials, labor, electricity, and other operating costs have been rising for years, and the current bout of inflation has only made things more challenging. But our insurance cost is the most significant factor in our financial shortfall. Some key facts about our expenses:

- Approximately $200,000 per year is collected in fees to cover St. C's insurance premium; however, the <u>insurance premium costs are an actual $460,000+ per year</u>. When the insurance premiums increased significantly to over $500,000 in 2018 due to the previous year's storms, the fees should have been increased rather than reduced. So instead, a bigger deficit accumulated each year. In 2021 the Board did competitively quote St. C's insurance policy and reduced the cost, but insurance costs in our area remain high.
- St. C is a high-maintenance property, requiring substantial resources in labor and materials to keep up. We all know that extensive cement repair is needed to be done throughout the property, the pool requires further repairs, the generator needs to be replaced, and the water plant and water lines must be maintained. For monthly maintenance alone, $340/month in fees is allocated, whereas at least $479/month is needed to cover maintenance expenses.
- The amount collected for cable costs does not cover the cable bill.
- Water expenses have been high and anticipated that they will continue to be.
- The lower number of staff for the past few years has hindered our operations and service. A General Manager has recently been hired, a position that has been vacant since 2018. An Operations Manager has also been hired to replace our outgoing Maintenance Manager. The Office Manager position has been replaced with a lower cost Administrative Assistant. These measures have reestablished the staffing requirements back to prior operating standards.

2. Reserve and long-term repair accounts have been underfunded

We need to fund reserves to cover unanticipated expenses and to make St. C attractive to lenders.

- During the past few years, the fees that were supposed to be allocated to reserves were not consistently transferred into the reserves account. Instead, they were used to cover operating costs. We will be commissioning a reserve study in 2022 to determine exactly how much we need in reserves. But we know our current reserves are not sufficient.
- The fees that were collected to go into the long-term repair account have also been used for operating expenses, rendering that account also underfunded to meet future needs.

3. Hurricane money was used for operating expenses and to plug deficit gaps

Owners have asked what happened to the insurance settlement after Maria. The Board has been diligently trying to answer this question, which is difficult because hurricane-related expenses were not tracked separately in our financials. The Board and Finance Committee have been working to separate and allocate hurricane-related and regular maintenance activities for a more accurate financial picture; however, some of these hurricane funds have been used to cover operating expenses and reduce deficit gaps.

What is the plan going forward?

- The Board and the 2022 Finance Committee will continue to diligently review financials to eliminate unnecessary expenses.
- A continued push for outstanding audits from the auditor to help ensure proper bookkeeping is in place.
- A reserve study is being discussed to determine a plan to fund future repairs/replacement.

- An appraisal of the property is underway to ensure that the property is adequately insured.

Our research clearly found that non-operating funds have been used to cover operating costs during the past few years—which is not only an inappropriate use of that money, but is also unsustainable—that non-operating money will not last. We must raise fees to both cover operating costs and fund reserves and long-term repairs. We simply don't have any other option.

In the future, and as expenses increase each year, this Board of Directors – and future Boards - may need to consider an annual increase if circumstances are warranted and escalating costs cannot be met within the context of the existing fee structure. We share this so you are aware that it may take more to make the organization sustainable. We will do everything we can to keep expenses down and minimize fee increases. In fact, we have been diligently reviewing our financials since the 2021 Board election to eliminate unnecessary expenses.

Remember, owners do get a lot for their fees: building insurance; a fully staffed front office and maintenance team; 24/7 security; facility maintenance; water treatment and water; cable; a pool; access and use of the Dolphin Suite; and landscaping.

This Board is committed to the operation of a financially healthy organization that is well-run and well-maintained – and done so completely transparent to all owners. During our 2022 annual meeting, the plan is to provide owners with a forecast for the upcoming five years, thinking ahead so we're prepared for the future. Together, we can get to a good place here at St. C.

Signed,

Board of Directors

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