

Minutes

Hat Island
Board of Trustees Meeting
3616 Colby Ave PMB 335
Everett, WA 98201
(360) 444-6611

Monday October 3, 2022

6:30pm via ZOOM

Attendees:

Erik Smith- President	Virtual
Ray Stephanson – VP	Virtual
Don Stark- Treasure	Virtual
Kelly Dukes- Secretary	Virtual
Aimee Caccavale- Trustee	Virtual
Dan Jensen- Trustee	Virtual
Roelof Burger	Absent- work conflict
Kim Gleason- Island Manager	Virtual

Erik: Called the meeting to order at 6:34pm

Agenda: Board working meeting to discuss proposed 2023 budget

Erik: Requests a motion to discuss the proposed 2023 budget

Dan: Motions

Kelly: Seconds

Vote:

Erik Smith- President	Yes
Ray Stephanson – VP	Yes
Don Stark- Treasure	Yes
Kelly Dukes- Secretary	Yes
Aimee Caccavale- Trustee	Yes
Dan Jensen- Trustee	Yes
Roelof Burger	Absent- work conflict

None opposed
Motion passes

2023 proposed budget:

Dan: We have made a few changes from the version I sent on Friday. Notes on the general comments. Proposed Budget spreadsheet. The far left column there are cells that are colored brown, those are where the Board will have to make independent decisions independent of the budget process itself. Primarily they are pricing issues on services like the ferry and the marina.

The layout is pretty straightforward, two columns.

- 1) BAU= business as usual- outlook without any changes (without dramatic changes)
- 2) Recommended- incorporates changes from the Finance Committee, office, etc.

Proposed 2023 budget will be presented to the community for the first time later this month the October Board meeting. (Zoom) We will take into consideration any comments and continue to refine the budget over the next month to prepare for community vote.

Don: Talk about the consideration and approval process. The 2023 recommended budget will come to the Board as an official recommendation from the Finance Committee. This will have incorporated input and consensus from the Board today, and that Budget will be revealed on Oct 15, 2022 BOT meeting. Community will continue until the following Board meeting on November 19, 2022. The recommended 2023 budget will be sent to the community in late November for vote in December for a budget to be adopted January 2023.

Dan: pre-COVID, (before we used ZOOM) we typically did a road show and made a presentation at the Everett library to allow those who are off island to ask questions. We will hold several virtual meetings to allow the community to ask questions.

Don: Alen Dashen and I will along with the Finance Committee take the heat on the budget. Best we can do with the facts. Spoiler alert, both fee and assessment increases are coming. There is good reasons to do both. Long term we are concerned about our cash balances. We have had healthy reserve balances, but even with this proposed budget we will eat into our reserves. Times are changing and there are some serious policy implications.

Dan: There are a lot of things going on here. Seeking Board engagement and recommendations on what we are recommending. I have spoken with Kelly on the salary recommendations in the budget. The Finance Committee has reviewed and supports Ray's and Kelly's recommendation on the salaries. Ray and Kelly will provide explanation to bring forward to the community why increasing salaries is the right thing to do. We want board chairs, ferry, marina and golf committees to help with the discussions as well.

The excel spreadsheet of the proposed budget shows the proposed new fees for services. There are additional tabs that breaks the budget down. You will see a tab for "Detail", "Summary", "Capital Purchases" and "Reserve Forecast" to further understand the proposed budget.

Even with the proposed budget we are cutting our reserves by nearly 50%. Some of the biggest hits came in this year which includes the marina breakwater repair which was nearly \$200,000 and was not an anticipated expense.

Now there is another almost \$200,000 for major projects for work that is needed by the community area, the parking lot drainage and a lot of work that needs to be done in the marina. Those items require almost \$180,000 in permit costs for next year which we did not anticipate. So that totals almost \$400,000 unanticipated expenses for this year.

We need to increase employee salaries.

In addition, there is the \$100,000 that Matt Surowiecki has not paid this year and another \$70,000 for 2023 that he is not paying that will come out of our reserves. Our next steps to proceed with Matt Surowiecki legal activities has additional costs as well.

To address all these items the Finance Committee discussed a \$200.00 assessment increase.

Services (ferry, golf, marina, water)

Ferry: We put in a \$2.00 fuel surcharge increase earlier this year, we are recommending that increase becomes permanent.

Golf: The Golf Committee is recommending raising the golf increases from \$12.00 to \$20.00 for unlimited play per day. This simplifies marshaling the course and most players only play 9 holes. There is a recommended increase in the annual golf fees from \$300 to \$320.

Marina: The Marina Committee recommended we increase the annual moorage \$1.00 per foot. The Finance Committee is recommending \$3.00 increase per foot.

Don and I have discussed that we need to break even on the services in the next 5 years. Water is covering the costs because we charge an extra \$400 year for water. So while it covers costs, it also has some big expenses coming up.

Kelly: We are the biggest bargain pretty much anywhere. I really appreciate Dan, Alan and the Finance Committee for their hard work. My feedback on your proposal is it is spot on.

Dan: If you were to aggregate the 3 services even with the recommended budget, we are going to go in the hole \$280,000 this year. That is how much has to be subsidized out of the assessments. We will have discussions on this further. We might consider a survey to the community on the idea of breaking even on services in 5 years. For the ferry that means we would be at \$17.00-\$18.00 in 5 years with no other inflation costs going in there. Golf would need to go up about an additional 25%, if the proposed \$20.00 fee stands. Marina would need to go up a bit more than 50% to break even. Not only is the marina fees a bargain compared to Everett, but it is way underpriced to what the marina costs us.

Kim: Just want to make sure it is understood that the Golf Committee had a recommendation that was brought to the Board but was never able to be presented. There are some changes from the Finance Committee recommended vs what the Golf Committee recommended. For example: for 10 daily passes the Golf Committee recommended \$170 for a coupon booklet of 10 passes. The Finance Committee recommended no discount and coupon booklets should be purchased at \$200 for a

cook of 10 passes (no discount for purchasing 10 passes). I just want to make sure that no one goes back to the golf committee and says you recommended this. This proposal is not exactly what the Golf Committee recommended.

Discussion: Business as usual (BAU) version would we still be raising the assessment and fees to achieve that? No, for the BAU version that assumes we would not raise assessments, ferry fees go back to \$10.00, staff would not get a raise, no capital improvements, etc. This is not really a viable option.

Don: The Finance Committee does not recommend the BAU budget. Including that column in these presentations going forward implies that there is a way that we can "fake it" (put off budget items) for another year." We do not think that is possible. This is a really important time for the island. We need to step up to these policy decisions and ensure that the community understands them.

Dan: With the exception of the fees (water, golf, marina, ferry) which the Board controls, the assessments are voted on by the community. If it is voted down then it reverts back to the 2022 budget. (last approved budget)

Ray: Don makes a good point, BAU implies it is a viable option. I don't think it is a viable option.

Dan: I don't think it is either.

Discussion: If the recommended budget is not approved it will be a disaster. If the vote goes down, it is disaster not business as usual. If that happened the Board will have to make big decisions on how to get through the year.

Dan: A number of issues and purchases have been brought forward from the office as a needed for safety improvements.

We don't normally ask the community for approval for capital expenses, they typically come out of the reserves. What we go forward to the community with is an operating budget. The committees have made an number of requests, we need feedback from the Board on those recommendations.

Erik: Inflation: Interest rate is ~8.5%, I see it is at 5%, which is used for gas. Based on the feds indication that they will keep raising rates, is 5% high enough?

Dan: we used 5% as a default a couple months ago as a placeholder. It is getting close to 9%. Hard to guess where inflation is going to go. For COLA 5.5% was used before Ray and Kelly calculated salaries. Gas is just passed along as cost of goods sold.

Kelly: Gas and barge rates would be adjusted and passed along to community.

Discussion: Agreement to target 7% inflation for service price increases.

Ray: If we are not successful in lawsuit or it takes it longer. Have we ever done a one-time assessment to build reserves back up?

Dan: Kind of, Kurt may have info on this. My recollection is in 2014-2015 Matt Surowiecki quit paying and we had a recession. We were paying things on a week-to-week basis. They did not think that we were going to make payroll. I looked at how we got through that, we basically stopped paying our bills for about 6 months. They hired a

professional company to do a reserve study (it is available on the website) with a recommendation of what it really takes to operate the community, including budgeting for the replacement of the equipment. At the time United States HOA laws required that 50% of the total owners approve a budget. Our reserves at the time were only about \$200,000 which is not enough.

They then went to the community with the only way they could proceed which was a special assessment of ~\$450,000. This is when I got involved in the Finance Committee. We had to do that 3 years in a row and this allowed us to build our reserves.

Then the United States laws for HOA's changed, and required only 50% of the people who voted to approved a measure, it would pass. While we could increase our reserves this way, it is better that we utilize special assessments for special projects, such as marina or road infrastructure improvements.

Alan Dashen: You provided a good history.

Ray: That makes sense, we are all trying to find a solution to the Matt Surowiecki problem (not paying his bills). Matt's lack of playing fair is impacting the whole community.

Dan: You are correct. We have spelled it out in the PowerPoint presentation. The community is going to see how much this is costing them. Basically, every lot subsidizes Matt Surowiecki \$400 a year. If he was paying, then everyone would be paying \$800 a year instead of \$1,200 year. Then you add that he is not paying his marina loan payments, so that is another \$100,000 that you can split between all the other owners. His past due bills are \$2,600,000 in past due assessments plus an additional \$2,100,000 in in penalties and interest. Then add another \$170,000 that his is not paying. The only positive is if they release the funds (~\$183,000) from the Superior Court. We would take that and pay off the marina loan and the reserves would be bumped by that amount.

Discussion: How and when would we get the funds distributed. \$183,000.00 is in escrow should be distributed. To get the ~4.7M owed from Matt Surowiecki we could need to spend more money on attorneys.

Professional assessment reserve recommendation: Reserve study recommended about a million dollars, to cover 3 months of operating expenses. Having just \$400,000.00 in our reserves is pretty low.

We started 2022 with ~\$1,300,000 in reserves. We will have burned though a lot this year and end up at ~\$500,000. We had a lot of unexpected expenses; ~\$200,000 marina bulkhead repairs, ~\$180,000 in permit fees, ~\$170,000 from Matt Surowiecki not paying. (Total ~\$550,000 unexpected expenses)

Don: These are extraordinary items and presumably they will not repeat again and we can start building our reserves again.

Dan: Board please take some time and go through the spreadsheets and make recommendations to get us back to \$750,000 reserves. Look at the capital expenditure budget and make recommendations. Make sure that is includes information on things

that are critical for safety or failure to maintain/replace equipment will have consequences. Look for opportunities to delay purchases where it makes sense.

Kim: Line items. Must have's vs like to have. Question: We were talking earlier about the different budget views: budget for this year, outlook, business as usual and recommended. The outlook and business as usual are not what was passed by the community last year. There were COLA's that were approved this year and other items. If the budget is not passed and he have to go back to the same budget that we started the year with, what happens to the COLA's that the staff got.

Discussion: If the budget does not pass, United States HOA law requires it reverts to last passed budget. Would that that include any COLA's that were passed? Do we revert to the last passed budget or would it be the revised budget? Erik requested Dan write the question down to ensure he had the question correct to ask our island attorney, Jeremy.

Ray: The question is would we have to roll back the cost-of-living increases to the staff if it was not in the 2022 base budget?

Dan: As I understand that would be yes, we would have to revert to the original 2022 budget. Erik, it would be good to check that with Jeremy.

Erik: It is interesting because we had the discretion to approve the amount in the bylaws.

Dan: The bylaws say if you overrun a line item, (the wording is pretty vague if a line item is a detail or rolled up) by \$10,000 then it has to be voted on by the community. As you recall we did that when we wanted to add health care benefits for employees. It was going to be more than \$10,000 so we took it to the community to vote on and they approved it. When we looked at the COLA's it was within those parameters so we were able to approve it.

Erik: I would think that it would include any voted upon amendment, not just the original budget approved to start the year. But it is a good question. If we have to go back to the original budget that would be very uncomfortable to have to revert back after approving COLA's.

Kelly: That would be a complete disaster.

Discussion: Agreement. Discussed ensure that the Board is all prepared to discuss the budget needs with the community. Discussed methods to prioritize budget items in evaluating opportunities to cut the budget. Need feedback in the next couple days.

Dan: I personally think the community would be willing to back the recommended budget right now. There are disaster avoiding needs in there like getting our employees paid properly as well as improvements to the island. The demographics of the island are changing, a lot of new people who think we are getting a pretty darn good deal on assessments, golf, marina, ferry, who don't want to volunteer and would be happy to pay someone to fix the dock and clean them.

Don: We need 50% plus 1 person to pass the budget.

Kim: Thanks to Dan and Don, they have been working very diligently on this. I have been on the island for a while, and was on the Finance Committee in the past. This budget has a ton of work into it and something that we can be proud of. We are looking at true books that includes depreciation. If we had to bring in someone from outside to do this it would cost a lot of money. Don and Dan and the Finance Committee have put in a lot of hours on this.

Dan: I want to thank the staff too. I ask a lot of questions. They are responsive and are learning. I really appreciate them.

Alan Dashen: I just wanted to say Dan and Don and Kim have done a terrific job with this budget. Nothing is pretty, we are asking to raise assessments, and our bottom line is dropping by \$400,000 but that is temporary. They have done a very good job addressing the issues. If the issues with Matt Surowiecki ever settle down it would help. I highly recommend that this budget be approved.

Discussion: Timing of next meeting Oct 12, 2022 at 6:30pm working session via Zoom.

Erik: Requests a motion to adjourn

Dan: Moves

Don: Seconds

Vote:

Erik Smith- President	Yes
Ray Stephanson – VP	Yes
Don Stark- Treasure	Yes
Kelly Dukes- Secretary	Yes
Aimee Caccavale- Trustee	Yes
Dan Jensen- Trustee	Yes
Roelof Burger	Absent- work conflict

None opposed

Motion passes

Meeting adjourned at 7:47pm