



Neptune House

Block Island, RI

A stylized trident icon, positioned to the right of the text 'Block Island, RI' and below the main title.

August 2016

MESSAGE FROM THE BOARD PRESIDENT

The April newsletter contained an outline of the Turnaround Plan that the Board of Directors had presented at the Owners Meeting the month before. The focus of this report is to provide an update on progress towards implementing the plan.

Overall, things are going very well. While much remains to be done, we are well on our way to improving the physical condition of the property and stabilizing our finances. Owners like ourselves who have been to the resort during the past few months have seen the physical improvements and have sensed a renewed enthusiasm among the staff and other owners. Among the physical improvements are new signage, new picnic tables and barbeque grills, renovated and painted lobbies, walkway pavers at the main entrance, and new drapes in many of the units. Appliances, mattresses, and bathroom exhaust fans have been replaced as needed, and the in-room guest guide books have been updated.

While considerable work has been done to improve the Neptune House property so far, much more work will be required in the future. That said, and given the progress being made, the Board hopes to be able to set 2017 maintenance fees no higher than they are this year. Since we are only a little more than halfway through the year, we cannot promise anything at this point in time, but that is our goal.

Additionally, the Board intends to present a comprehensive plan for recreational amenities including an outdoor heated pool for a vote via mail in October. See Initiative 6 below for more information. If a positive vote is obtained, and if things go smoothly throughout the steps required to obtain town approvals and during the design and construction processes, the pool could be open in mid-2017, with other amenities to follow over the following 1-2 years. The plan would be paid for over 2-3 years via a temporary annual fee that would be in addition to the regular maintenance fee.

Turnaround Plan Update

The Turnaround Plan presented at the Owners Meeting in March consists of six major initiatives this year:

1. Hiring a management company (Vacation Resorts International) to achieve lower operating costs and improve efficiency.
2. Implementing a collection policy to lower bad debt and repossess unpaid weeks.
3. Implementing Proposition 30.
4. Establishing a more robust sales and marketing program.
5. Conducting a reserve study to provide a long-term plan for the resort.
6. Evaluating the impact of a reconstructed pool on owner retention and recruitment.

Progress on each of these initiatives is detailed in this newsletter...

Initiative 1. Hiring a Management Company (Vacation Resorts International) to Achieve Lower Operating Costs and Improve Efficiency

Hiring VRI to manage the resort is working out as well as expected. On the financial side, the systems, processes, and expertise that VRI has brought to bear have improved financial management and reporting immeasurably.

VRI tracks expenses and revenues using accrual accounting, following the standards of the timeshare industry. VRI's accounting department produces a package of monthly financial reports that track year-to-date performance against budget. This is standard business practice, but it's a first for the Neptune House. It allows management and the Board to spot trends and take necessary actions in a timely manner.

So far this year, revenue is coming in on budget and spending is running slightly below budget. This bodes well for the remainder of the year.

On the physical side, many of the improvements that have been made to the property have resulted from the ideas, experiences, and connections that VRI has in the New England area and on Block Island in particular. The favorable pricing that VRI is able to negotiate has allowed us to get more done than expected within the constraints of our repair and maintenance budget.

Mike McManus, the VRI Director of Resorts assigned to the Neptune House, has worked tirelessly and very effectively to respond to the Board's sense of urgency to make things better. He is a pleasure to work with, as are the members of the entire VRI team in Hyannis.

Initiative 2. Implementing a Collection Policy to Lower Bad Debt and Repossess Unpaid Weeks.

As laid out in our Collection Policy, the Board sent reminder letters in January, February, and March to owners who had not paid their fees or established payment plans. In April, a final attempt was made by management to work out payment plans with delinquent owners. At that point, a two-pronged approach was taken to deal with delinquent owners, depending on whether they had become delinquent recently or had been delinquent for a number of years.

Owners who became delinquent in 2016 and who remained delinquent as of April were referred to a collection agency in May. These owners collectively held 21 shares. The Board engaged Continental Central Credit Inc. (CCCI) as the collection agency. VRI and CCCI have worked together for many years. CCCI has a solid record of success in collecting from delinquent owners.

In June, non-judicial foreclosure proceedings were instituted against the chronically delinquent owners who collectively held 85 shares. The Board hired the law firm of Rodio & Brown to handle the non-judicial foreclosure process. This firm has a proven track record of successful foreclosures on Block Island and was the low bidder for this work. The requirements for a non-judicial foreclosure are specified in Rhode Island law. The process culminates with an auction of delinquent shares.

The auction was held on Block Island at the Neptune House on August 12, 2016.

More than \$44,000 has been received via the collection and foreclosure processes so far. 18 shares have been returned to good standing (8 delinquent shares paid, and 10 shares sold at auction). Additionally, the Owners Association has taken possession of 70 formerly delinquent shares (30 fixed weeks and 40 float weeks). The costs of the collection agency are borne by the delinquent owners, so there is no cost to the Owners Association for the work of the collection agency. Charges to the Association for the non-judicial foreclosure process were about \$19,000. These costs included advertising, filing fees, attorney's fees, and payment to the auctioneer. The net financial impact of the collection and foreclosure processes on the Association has been a gain of about \$25,000.

The result of these actions is that nearly all shares in the resort are now owned either by the Owners Association or by individuals who are up to date on their payments. Efforts are ongoing to resolve the accounts still delinquent. In future years, owners who fail to pay will be dealt with promptly. This will prevent a build-up of a large number of non-performing shares such as we have had to deal with this year.

Initiative 3. Implementing Proposition 30

The Board took the necessary steps to put in place the version of Proposition 30 approved at the Owners Meeting wherein float weeks were retained instead of being converted to fixed weeks. The resort season has been reduced to 30 weeks effective in 2017: 26 fixed weeks and 4 float weeks – one in November and 3 in April.

The float week maintenance fee was returned to its 2015 amount of \$690. The Board anticipates holding the fee at or near this level in upcoming years.

A Float Week Amnesty was declared in April. 53 float weeks were deeded back to the Owners Association. 60 float weeks were retained by owners. The remaining 44 weeks out of the 157 float weeks formerly in the hands of individual owners were dealt with through the collection and foreclosure processes.

Note that a 4-week float season can accommodate 92 float weeks (4 weeks x 23 units). Since we have fewer than three-fourths of the available float weeks in the hands of paying owners, we could be looking at contracting the float week season even further if we are unable to get additional people interested in owning float weeks.

Initiative 4. Establishing a More Robust Sales and Marketing Program

When we look at what needs to be done in the sales and marketing space, we need to look at things from two different perspectives. On the one hand, the Owners Association currently owns 67 fixed week shares that we need to get into the hands of paying owners as soon as possible so that we will be able to spread costs over a broader base and thereby be able to reduce annual maintenance fees. Achieving this will require a focused, near-term effort.

On the other hand, we want to provide individual owners with the ability to sell their shares when they no longer wish to retain ownership, no matter when that might occur. It is important that we have a fluid marketplace where there is demand for shares in our resort and where there exist one or more viable sales channels for owners to use.

Regarding the inventory owned by the Association, we are actively looking at three approaches:

1. Contracting with a sales firm that specializes in the timeshare industry and has experience and success in the New England area. On our behalf, VRI has had discussions with two firms so far, but has been unable to establish a mutually beneficial arrangement. This is an ongoing process that we will continue to pursue.
 2. Entering into a contract with a Vacation Club that will guarantee payment of maintenance fees for a specific number of years. This is a concept that has been gaining traction in the timeshare industry in recent years. Some of the other resorts that VRI manages in Rhode Island and Massachusetts have taken this approach. Vacation clubs do not purchase shares, so there would be no sales revenue from shares placed with them. However, this approach can get a sizeable amount of inventory to yield maintenance fees right away. VRI has had discussions with two vacation clubs, but the timing has not been right for either one
 3. Joining the Points program of a major timeshare exchange company and working with a sales broker specializing in selling points. Most of the resorts that VRI manages are affiliated with both Interval International and RCI which are the two largest vacation exchange networks. Dual affiliation provides greater choice to owners. The Board investigated affiliating with RCI, but discovered that the affiliation agreement with Interval International contains an exclusivity clause. The agreement runs through the year 2026 and Interval International has so far been unwilling to waive exclusivity, so working with RCI is not currently an option.
- based on other inventory that they have taken on or due to the constraints of their annual budget cycles. Something could materialize over the next year, so this will remain an active possibility.

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Initiative 4. Establishing a More Robust Sales and Marketing Program Continued...

Interval International (II) has a points program called the Club Interval Gold Points program that is available to Neptune House owners. II has developed a Points Matrix in which every unit is assigned a point value for every week of the resort season. Point values are determined primarily by resort quality and amenities. Specialized brokers sell points to people interested in using points to reserve weeks at resorts that are members of II. We are looking to find such a broker to work with us.

The key factor in the sales process for a points program is maintenance fee per point. We would need to have maintenance fees at levels that provide a favorable per point amount. As is the case with Vacation Clubs, we would get no revenue from the sale of shares, but would get a steady stream of maintenance fee revenue as long as the amount per point remains competitive.

Regarding resales by individual owners, there are several possibilities. Every owner holds a deed in real property for each share owned, and is able to sell shares by whatever means available, as with any other real estate. The Owners Association has no formal role in resales of private property. However, the Association is mindful that as time passes, age, infirmity, and fixed income are going to lead to increased desire by some owners to transfer ownership of their shares to others. The Association wants to be of assistance to owners – particularly long-time loyal supporters – as well as to avoid the prospect of dealing with additional delinquencies in coming years. Recommended sales paths include:

- Utilizing neptunehouse.com. This web site is the sales channel provided by the Owners Association. The site has been re-branded to conform to the look-and-feel of the written materials that we have developed. Pictures have been replaced with new photos, and 360° videos of the rooms have been added.
- Using global marketplaces such as weholi.com and redweek.com. These are web sites where owners of any timeshares anywhere can list their shares for sale or rent. Fees apply depending on the level of service desired. The advantage is exposure to the worldwide timeshare community.

Efforts to control maintenance fees, restore the pool (see below), and reduce total available inventory by getting shares owned by the Owners Association into the hands of individual owners should also help to create a more active market for resales of Neptune House shares in the future.

Initiative 5. Conducting a Reserve Study to Provide a Long-Term Plan for the Resort

A healthy reserve fund is necessary to protect and maintain the property value of the resort. It is used for anticipating long-range repair and replacement of common areas and systems, and for refreshing each living unit on a planned basis. The Board hired Advanced Reserve Solutions, Inc. (ARS) to conduct a study of the useful lives and replacement costs of all furniture, fixtures, equipment, and facilities. The on-site assessment took place in May. An analysis including a replacement schedule and proposed funding plan was delivered in June. The cost of the work was \$4,800 which was less than the budgeted amount.

In July, the Board met on site at the Neptune House to review the Reserve Report in order to gain a first-hand appreciation for the assessment and recommendations. The Board is currently working with assistance from VRI to develop a specific funding plan and timetable that will be used to calculate a reserve charge to be included in the annual maintenance fee.

When the current Board took office in November, there was only \$15,000 in the reserve fund. This amount was used to help cover the \$69,200 cost of demolishing the pool building. The budget for the current year includes \$71,720 for the reserve fund. That amount was chosen principally as a result of the Board's desire to set a reasonable amount aside, not with regard to a rigorous analysis such as has been done in the Reserve Study. Based on the Board's current understanding of what is appropriate and realistic, annual reserve funding could be in the range of \$75,000 to \$125,000.

Note that the annual maintenance fee covers two major areas: operating expenses and reserves. Because the 2016 maintenance fee included some one-time expense items, a 2017 increase in reserve funding will not necessarily require an increase in the total maintenance fee.

Initiative 6. Evaluating the Impact of a Reconstructed Pool on Owner Retention and Recruitment

Feedback from owners who attended the Owners Meeting in March was strongly in favor of restoring use of the pool, and management continues to hear from owners wondering when the pool will be re-opened. The Board is in agreement that having a pool would provide a desirable amenity for current owners and would aid in resales by making the resort more attractive to prospective buyers.

The Board has gone beyond the evaluation stage and has established a goal of having a pool operational as soon as possible in 2017.

Considerable work needs to be done to the pool in order to meet current health and safety codes. The Board has evaluated various options for renovating the pool to satisfy these requirements. We have determined that an indoor pool would be much too costly. Building codes require a new structure able to withstand 140 mph wind loads. To comply, a new pool building would need to have a rigid steel frame and, with the appropriate humidity control system, would cost approximately \$1.5 million, nearly double the previous estimate.

In order to control the cost while making the pool available to all owners, the Board is developing a plan for an outdoor heated pool that could be open for the entire resort season (April – November).

We are in the process of obtaining current cost estimates for construction and for annual operation and maintenance, and we are putting together a detailed timeline for the approval and construction processes. A vote of owners in good standing is planned for October via mail. Given the time expected to obtain a building permit, go through the zoning and planning board review processes, do the detailed design, and perform the work to renovate and upgrade the pool, 9-12 months could be needed after owner approval is obtained. If things go well, the project could be completed sometime in mid-2017.

In conjunction with this project, we are looking at using the space currently taken by one of the tennis courts for a playground, fire pit, basketball court, and bocce court. These are amenities that owners have expressed interest in having and are common at timeshare resorts. They would also make the resort more attractive to people looking to exchange into our resort or purchase shares, and they would add to the point values assigned by Interval International in its Points program. One tennis court would remain and would be refurbished. The proposal that we intend to present to owners in October will be a comprehensive plan that includes the pool and the other recreational amenities. There will be a yes-or-no vote on a single plan developed with consideration for the desires that owners have expressed and the costs that would be involved.

In order to limit the financial burden on current owners, we are pursuing an approach that would allow restoration of the pool and construction of the other recreational amenities without a major up-front financial impact. Approaches under consideration include 1) a loan that could spread costs over a number of years and 2) phasing the project. The feasibility of obtaining a loan at a favorable interest rate is questionable due to the resort's financial situation, so a phased approach is more likely. In this scenario, the pool would be completed first followed by the other amenities over the following one- or two-year period. Funding would come from a temporary fee collected each year during the 2 or 3 years of the project.

As a way to limit the financial impact on owners even more, the Board had explored the possibility of a joint venture with the Town of New Shoreham. While there seemed to be interest from town officials, it could take 2-3 years before approval could be sought from town voters – presuming that the terms of an agreement allowing pool usage by town residents were approved by Neptune House owners. We want to proceed quickly, and we are uncertain whether owners would be willing to open up usage to other parties, so we ceased discussions with the Town.

We had also considered partnering with the Island Manor Resort in some way. However, the timing is not right for Island Manor, given other internal projects that they have in their pipeline. This fact, along with the uncertainty about whether our owners would be willing to share usage, eliminated this option from further consideration.

At this point, whatever we do with regard to the pool or other recreational facilities will be funded solely by Neptune House owners and will be for use only by people staying at the Neptune House.

Punch List Review

In late summer 2015 a small group of owners led by architect Cheryl Moore (now a member of the Board) developed a punch list of repair and maintenance items for the living units and turned it over to management. It was determined that some projects could be accomplished in house and others will need to be left to the professionals. Projects were categorized under one of the following six headings:

- General Carpentry/Minor Repairs
- Plumbing, Painting/Plastering
- Electrical
- Room Equipment Replacement
- Kitchen and Bathrooms

Shortly after the first of the year Michael Swanson resigned and Samantha hired Jeff Bailey, an all around great handyman/mason and experienced contractor, from Connecticut.

General Carpentry/Minor Repairs: Over half of the window screens have been cleaned, adjusted and repaired and 15% of the slider screens have been replaced.

Plumbing (Contracted): Outside contractors completed the following:

- Fixed a number of leaks in the units
- Rebuilt the shower/tub drain in unit 9's second floor bathroom
- Replaced faucet and showerheads as needed.
- Reinstalled sinks in several units
- Inspected the hot water tanks, boilers and water lines in building A and B.

Painting/Plastering: The bedroom closet doors were adjusted and the tracks have been replaced as necessary. In four of the rooms a new six panel traditional door was installed.

Electrical: Track lighting in the main kitchen area has been installed in 45% of the units.

Room Equipment Replacement: Curtains have been shortened and rehung in building A. The sliding doors in building B have new blackout drapes and sheers. The refrigerators, microwaves and stoves have been inspected and replaced as needed. The mattresses on five queen sized beds and four sleeper sofas were replaced.

- Kitchen and Bathrooms:
- Over 65% of the rooms kitchen cabinet doors were adjusted and magnets installed to keep doors closed.
- Refrigerators were inspected and replacement parts were ordered to repair door handles, shelves and other miscellaneous items.
- 18% of the bathroom base cabinets and 12% of the medicine cabinets were replaced.
- 65% of the bathroom exhaust fans have been replaced.
- One kitchen was redesigned and two others are being evaluated for the fall of 2016/2017.

The majority of the work on the punch list has been performed; however, more is being added as the needs arise. The remaining items are scheduled to be addressed in the Fall/Winter 2016. If you find something that needs immediate attention please call the front desk and report the issue(s).

Welcome Cheryl Moore to the Board of Directors

In June, Wayne Rioux resigned as a member of the Board of Directors and as Vice President of the Owners Association. In accordance with the by-laws, the remaining Directors appointed Cheryl Moore to fill the vacant seat on the Board until the next election. Cheryl is also Vice President of Facilities Planning for the Owners Association.

Website Reminder

VRI's website (vriresorts.com) has a section dedicated to Neptune house owners which requires registration. The website contains account information, minutes of Board of Directors meetings, governance documents, policies, and much more.

If you haven't already registered, go to "Owners Portal", click on "Login", then "Click Here to Create Your Account". Enter your Email Address and select from the Property Code drop down, enter your

Account Number which is of the form UUU-WW where UUU is the unit number padded with leading zeroes and WW is the week number, and then complete the New User Security Setup and you are in.

You may make a payment here. This also shows all information concerning your account including last payment, balance, and upcoming reservations. Your email address must be attached to all unit/weeks so if any of your unit/weeks does not appear, or if you do not know your unit/weeks (e.g., the unit/weeks associated with your float weeks), please call 1 (866) 469-8222 or email nememberservices@vriresorts.com.

Rental Program

Our new management company "VRI" is now responsible for renting owners units. All owners are encouraged to go to the VRI website, (www.vriresorts.com) log into owners' services, review the rental program terms and sign up. Rentals will no longer be available through the Resort Manager. She will be concentrating on resort operations, attending to the guest needs, and making sure everyone enjoys their time on Block Island. All state/local taxes apply and owners will receive federal tax documents for reporting purposes (standard 1099).

In-Room Guide Books

The books are full of resort news, rules and helpful information. Management will update to also include island news, restaurants, and local attractions.

A page has been dedicated to outlining the housekeeping responsibilities for the following: towel service, trash/recycle service and other standard

operating procedures available to guests visiting the Neptune House. Standard fee(s) may apply. However, additional Housekeeping needs may be scheduled with the front desk in advance to make your stay more enjoyable. For your convenience, the resort also offers twin or queen blow up mattress, pack and play and highchairs.

Please note: There is a fee for mid-week cleanings.

Resort Policies

Security Deposit - starting January 1, 2017 a security deposit will be required from each guest and owner upon check in. This policy is to protect the Resort and your investment in case of loss or damage to the property/units.

Non-Smoking Resort - Neptune House actively promotes a smoke-free environment. We ask that you refrain from smoking inside your unit. Smoking on the balconies, patios or outside grounds is permitted. In the event of a violation, a minimum fine of \$250 will be assessed to all violators.

No Pet Policy - There is a NO pet policy at the Resort which is strictly enforced for the benefit of all owners. Please make appropriate arrangements for your pets while you vacation at Neptune House.

Neptune House

Block Island, RI



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Joanne Regnault (401) 261-2032
1:00 p.m. - 9:00 p.m. Eastern 7 days/week
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VRI Owner Services

Assessment Billing & Collection (508) 771-3399
(800) 999-7140
Monday - Friday 9:00 a.m. - 5:00 p.m. Eastern

VRI Reservations

General (800) 228-2968
Rentals, Vacation Tyme® (866) 469-8222
and Bonus Time
Website: www.vriresorts.com

Exchange Information

Interval International (800) 828-8200
Trading Places (800) 365-7617

Still Need Assistance?

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Board of Directors

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