

Neptune House Owners Association Meeting

March 19, 2016

Agenda

- **Continental Breakfast** **11:00-11:30**
- **Welcome & Opening Remarks (Phil Totino)** **11:30-11:45**
- **VRI Services (Rich Muller)** **11:45-12:00**
- **Changes to By-laws (Chris Lindgren)** **12:00-12:15**
- **Financial Update (Mark Morrissette)** **12:15 - 1:00**
- **Break** **1:00 - 1:15**
- **Turnaround Plan (Mark Morrissette)** **1:15 - 2:00**
 - **Proposition 30**
 - **Pool**
- **Presentation to Meredith (Phil Totino)** **2:00 - 3:00**

Welcome & Opening Remarks

Phil Totino

Housekeeping

- **Cellphones**
- **Emergency Exits**
- **Restrooms**
- **Cake and coffee**
- **Microphone**

Introductions

- **Board of Directors**
 - Phil Totino – President
 - Wayne Rioux – Vice President
 - Mark Morrissette – Treasurer
- **Other Officers**
 - Chris Lindgren – Secretary
 - Cheryl Moore – Vice President of Facilities Planning
- **Management Team**
 - Rich Muller – VRI Sr. Vice President of Resort Operations
 - Scott Dravis – VRI Vice President of Resort Operations
 - Mike McManus – VRI Director of Resorts
 - Samantha Disotell – Resort Manager

Preliminary Matters

- **Notice of Meeting:**
 - **Vacation Resorts International (VRI) certifies that meeting announcements were timely sent to all owners eligible to vote**
- **Quorum:**
 - **Based on proxies received prior to the meeting, 25% quorum for meeting is met**

Key Actions Since Election

- **Hired time share management company (VRI)**
- **Hired law firm (Sayer, Regan & Thayer)**
- **Posted email addresses of Board members on web site**
- **Posted minutes of Board meetings on web site**
- **Distributed budget and annual financial report to owners**
- **Voted to update the By-Laws to**
 - **Expand Board of Directors from 3 to 5 members**
 - **Allow email communication with owners**
 - **Conduct Board meetings by telephone**
- **Prepared to implement Proposition 30**

Buildings & Grounds Improvements

- **New sign with plantings/irrigation/lighting**
- **Fence around pool**
- **New walkways to office with drainage**
- **Lobby in new building refurbished/painted**
- **Doors of living units painted**
- **Telephones removed from living units**

VRI Services

Rich Muller

Changes to By-laws

Chris Lindgren

By-Law Changes as Approved by Board

- **Redlined Amended By-Laws sent to all owners in February**
- **Increases Board of Directors from 3 to 5 members**
 - **Effective with next Board election (2017)**
 - **Allows for staggered terms of up to 3 years**
- **Other Changes:**
 - **Annual Financial Reports sent within 90 (versus 45) days of year-end**
 - **Notices of owner meetings, and owner proxy votes, can be emailed**
 - **Requests for lists of owner addresses may only be used for Association matters -- not for personal or financial gain**
 - **Procedures for Board meetings simplified – notice of Board meetings may be given by email and Board meetings may be held telephonically without all Board members present**
 - **Outdated references to the original resort developer (the “Declarant”) deleted**

By-Law Changes – Voting Procedure

- **Changes not effective until recorded in the Block Island Land Records as an amendment of the Time Share Declaration**
- **Amendments to the Time Share Declaration require owner approval**
- **One vote per week owned (so, if 2 weeks owned, 2 votes)**
- **Majority of votes present in person or by proxy needed for approval**
- **Please submit any ballots and proxies not already submitted**
- **Will announce results later in meeting**

Financial Update

Mark Morrissette

Financial Update

- **Historical deficits created an ongoing cash problem**
- **“Creative Financing” temporarily filled the holes; could not be sustained**
- **2016 Budget attempts to solve the historical problems, and set a foundation for the future**

Historical Financials

Operating Expenses (\$000)

	<u>2013</u>	<u>%</u>	<u>2014</u>	<u>%</u>	<u>2015</u>	<u>%</u>
Operating Expenses	\$631	-5%	\$596	-6%	\$622	4%
Pool Bldg Demolition					\$ 69	
Total Expenses	<u>\$631</u>		<u>\$596</u>		<u>\$691</u>	

- **2013 and 2014 declines due primarily to lower expenses from pool**

Historical Financials

Revenue Collections (\$000)

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Maintenance Fee Assessment	\$ 935	\$ 947	\$ 945
Special Assessment	<u> </u>	<u> </u>	<u>\$ 348</u>
Total Assessment	\$ 935	\$ 947	\$1,293
Less Uncollected "Bad Debts"			
NHOA	\$ 261	\$ 291	\$ 422
Owners	<u>\$ 63</u>	<u>\$ 70</u>	<u>\$ 166</u>
Total Uncollected	<u>\$ 324</u> 35%	<u>\$ 361</u> 38%	<u>\$ 588</u> 46%
Total Net Assessment	\$ 611	\$ 586	\$ 705

Historical Financials

Gain/Loss(\$000)

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Total Net Assessment*	\$ 611	\$ 586	\$ 705
Expenses	<u>\$ 632</u>	<u>\$ 596</u>	<u>\$ 692</u>
Gain (Loss)	\$ (20)	\$ (10)	\$ 14

*** Total Net Assessment Does not automatically equal cash collections:
See Balance Sheet**

Summary Balance Sheet

December 31, 2015 (\$000)

Assets

Cash	\$ 273
Accounts Receivable (Unpaid Special Assessment)	\$ 62
Pre-Paid Expenses	<u>\$ 9</u>
Total Assets	\$ 343

Liabilities

Accounts Payable (Bills to be paid)	\$ 31
Accrued Expenses	\$ 5
Pre-paid Assessments	<u>\$ 312</u>
Total Liabilities	\$ 348

2015 Financial Health

Shorthand Financial Health Calculation (\$000)

Cash	\$ 273
Accounts Payable	\$ (31)
Pre-Paid Assessments	<u>\$(312)</u>
	\$ (70)

Consequences of 2013/2014 Losses

- **2014 Maintenance Fees collected in Nov/Dec of 2013 used to cover 2013 expenses**
- **2015 Maintenance Fees collected in Oct/Nov/Dec of 2014 used to cover 2014 expenses**
- **By November 2015: Cash balance essentially zero**
 - **Management using credit cards to cover expenses**
 - **Management deferring salaries**

Adding to the Cash Crunch: Rental Policy

- **Owners used NHOA staff to facilitate rentals**
- **No fees charged by NHOA**
- **Rental income used to offset future maintenance fees**
 - **Owners essentially lending cash to NHOA to fund losses**

Adding to the Cash Crunch: Float Week/Prop 30

- **Standard policy to collect Float Week fees 1(+) year in advance**
 - Fees for April 2015 Float week due December 2013
 - Cash arrives 12+ months early, and is spent
- **Initial Proposal for Proposition 30 accelerated the problem**
 - If April 2017 weeks become fixed, can't charge fees in December 2015

November 2015: The Situation

- **Zero cash balance**
- **Credit card debt**
- **Unable to pay salaries**
- **Low collections on Special Assessment**
- **Pre-collected Maintenance Fees (from rentals) spent**
- **Pre-collected April 2016 Maintenance Fees spent**
- **Can't collect April 2017 Maintenance Fees (pending Prop 30 decision)**

November 2015: The Situation (cont.)

- **Pending Meredith retirement**
- **No reserve fund (or study on needs)**
- **Building exterior, interior, and systems in need of major repairs**
- **No law firm (buy/transfer units, update documents, etc.)**
- **Pool future uncertain**

2016 Budget Goals

- **Back-fill for prior deficits**
- **Back-fill for prior fees collected and pre-spent**
- **Lay foundation for future decisions**
 - **Legal, Proposition 30, Reserves**
- **Improve operational efficiency where possible**

2016 Budget

	<u>2016</u>	<u>%</u>
Operating Expenses	\$ 543,000	-13%
Other/Non-recurring		
Special Assessment Shortfall	\$ 20,000	
Pool Bldg Demo Overage	\$ 4,000	
Pre-collected/Spent (rentals)	\$ 40,000	
Legal	\$ 25,000	
Reserve Study	<u>\$ 8,000</u>	
Total Other/Non-recurring	\$ 97,000	
Reserve Fund	<u>\$ 72,000</u>	
Total Budget	\$712,000	

2016 Fees

- **Need to COLLECT \$712,000 to meet budget**
- **But... Divide budget across how many shares?**
 - **Many weeks owned by NHOA and do not pay**
 - **Assumptions of payments on owner-owned weeks based on prior history**
 - ***Planned* move to change float weeks to fixed: assume limited collection on “float” weeks**

A Note on “Bad Debt”

Weeks Owned and (% Unpaid) by Type and Owner

	Float	Fixed
Owner	160 (24%)	574 (12%)
NHOA	415 (100%)	24 (100%)

A Note on “Bad Debt” (cont.)

Possible Remedies Vary by Category

	Float	Fixed
Owner	<ul style="list-style-type: none">• Improve Value• Sales/Marketing	<ul style="list-style-type: none">• Collections• Sales/Marketing
NHOA	<ul style="list-style-type: none">• Hard to Change...	<ul style="list-style-type: none">• Sales/Marketing

Where are We Now?

Maintenance Fee Collections through mid-March

	<u>Shares</u>	<u>\$ Amount</u>
Actual Collections	466	\$ 603,047
Payment Plans/Scheduled	<u>36</u>	<u>\$ 39,592</u>
Total Collected & Scheduled	502	\$ 642,639

- **Collected or scheduled 90% of \$712,000 budget**
- **Unclear whether this is good, or bad...**

Turnaround Plan

Mark Morrissette

Turnaround Plan: Overview

- **A turnaround plan requires one key ingredient... A plan!**
- **Review financial considerations (LOTS of assumptions)**
 - **Fixed and Variable Operating Costs**
 - **Interior and Exterior Maintenance costs**
 - **Impacts on Maintenance fees**
- **Review actions taken and in process**
 - **Management Company**
 - **Collection Policy**
 - **Proposition 30**
 - **Sales & Marketing Program**
 - **Reserve Study**
 - **Pool**

Turnaround Plan: Financial Considerations

Mark Morrissette

Building a Plan for the Future

The Basics: Number of Units

Neptune House Units	23
<i>Key Assumption:</i> Weeks Open	<u>30</u>
Possible Billable Shares	690
<i>Key Assumption:</i> Collection/Occupancy	92%
Total Paying Shares	635

Note: There were approximately 625 paying shares in 2015

Building a Plan for the Future

The Basics: SAMPLE Operating Budget

Fixed Costs

General & Administrative	\$ 150,000
Taxes & Insurance	\$ 60,000
Maintenance & Repair	<u>\$ 110,000</u>
Total Fixed Costs	\$ 320,000

Variable Costs

Operations & Utilities	\$ 130,000
Cleaning	<u>\$ 110,000</u>
Total Fixed Costs	<u>\$ 240,000</u>
Total Operating Budget	\$ 560,000

Note: 2016 Operating Budget of \$542,000

Building a Plan for the Future

Operating Budget Implications

Total Operating Budget	\$ 560,000
Total Paying Shares	<u>635</u>
AVERAGE fee per share	\$885

Building a Plan for the Future

Aside: Variable Costs Implications

Variable Costs	\$ 240,000
Total Weeks Open	<u>30</u>
Variable Cost/Week	\$ 8,000

- **Variable cost is the amount you need to collect for a given week to justify being open**
- **Assuming \$690 Float Week Fee*: need to fill 12 of 23 units to cover Variable Costs**
 - **12 units x \$690 = \$8,280**
 - **Analysis impacts Proposition 30, and Sales & Marketing program (more to come...)**

*See Proposition 30 Discussion

March 19, 2016

NHOA Meeting

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Basic Operating Budget

The Problems

- **No plan for the future**
- **Minimal external repairs; Minimal internal repairs/updates**
- **Managing crisis-to-crisis: Constant need for Special Assessments**
- **Declining value over time**
- **Owner frustration**
- **Hard to sell/re-sell units**
- **Declining paying units.... Rising fees**

Plan for the Future

What Will our Reserve/Maintenance Plan Look like?

- **We do not know yet**
- **We are commissioning a study from a professional firm**
- **It will incorporate a multi-year (30+) plan for interior and exterior maintenance, repairs, and updates**

...but, we can make some educated guesses...

Reserve Plan (EDUCATED GUESSES)

Unit Interior Assumptions

<u>Repairs</u>	<u>Cost/Unit</u>	<u>Frequency</u>	<u>Cost/Year</u>
Minor: Beds, Furniture, etc.	\$ 7,000	7-years	\$ 1,000
Major: Minor + Kitchen, bath, floors	<u>\$ 30,000</u>	<u>14-years</u>	<u>\$ 2,150</u>
Total Cost/Unit/Year			\$ 3,150
Cost/Year/Share (30 weeks) (92%)			\$ 115

Reserve Plan (EDUCATED GUESSES)

Common Space/Exterior Assumptions

<u>Repairs</u>	<u>Total Cost</u>	<u>Frequency</u>	<u>Cost/Year</u>
Minor	\$ 12,000	Annual	\$ 12,000
Moderate	\$ 50,000	5-years	\$ 10,000
Major	<u>\$100,000</u>	<u>10-years</u>	<u>\$ 10,000</u>
Total Cost/Year			\$32,000
Cost/Year/Unit (23)			\$ 1,400
Cost/Year/Share (30) (92%)			\$ 50

Operating Costs + Reserve Plan (ESTIMATE)

Impact on Maintenance Fees

<u>Average Costs</u>		<u>Translated to Shares*</u>	
Operating Costs	\$ 885	Float	\$ 690
Interior Repairs/Updates	\$ 115	Efficiency	\$ 970
Common/Exterior Repairs	<u>\$ 50</u>	One Bed	\$ 1,070
AVERAGE Maintenance Fee	\$ 1,050	Two Bed	\$ 1,185

*Note: Assumes Float fee set at \$690, then 90%/100%/110% relative weighting for Fixed Weeks
Does NOT include Pool Costs (more later).

This is not a promise. This is not a guarantee.

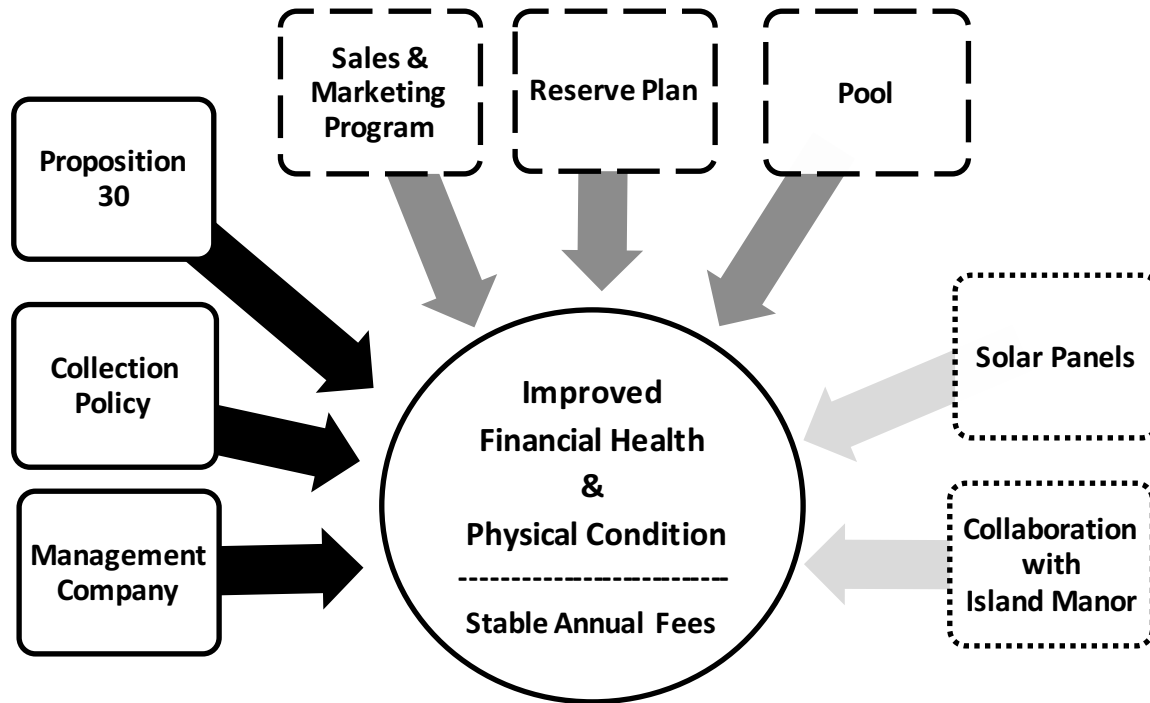
This is to help owners understand the decisions the board is currently contemplating.

There is A LOT we do not yet know.

Turnaround Plan: Actions Taken and in Process

Mark Morrissette

Strategic Initiatives



Actions Taken: Management Company Hired Vacations Resorts International (VRI)

- **Benefits:**
 - **Billing, Budgeting, Bookkeeping**
 - **Financial Reporting, Cash Management, Group Purchasing**
 - **Rentals, Reservations, Exchange Services**
 - **Owner communication**
 - **Opportunity to leverage industry's best practices**
- **Impacts:**
 - **Lower Operating Costs**
 - **Improved Efficiency**

Actions Taken: Collection Policy Implemented

- **Benefits:**
 - **Process for encouraging owners to pay in a timely manner**
 - **Procedure for resolving accounts of long-term delinquent owners**
 - **Makes it possible to re-possess unpaid shares and re-sell them**
- **Impacts:**
 - **Lower “bad debt”**
 - **First step to move units to paying owners**
 - **Ultimately lower average fees (more paying owners)**

Actions Taken: Proposition 30 In Implementation

- **Benefits:**
 - **26 Fixed Weeks + 4 Float Weeks**
 - **Maintain flexibility for varying April vacations schedules**
 - **Maintain flexibility to adjust Neptune House schedule**
 - **Float week maintenance fee back to \$690**
 - Intent to keep low relative to fixed week fees in future
 - **Amnesty for unwanted float weeks**
 - Available only to owners in good standing
 - Future amnesties when appropriate

Actions Taken: Proposition 30 In Implementation

- **Implementation Process**
 - **No owner vote needed; no change to governing documents**
 - **\$325 (\$1,015 - \$690) refund to owners who have paid in 2016**
 - **Quitclaim deed for owners who wish to relinquish their float weeks**
 - **\$91 fee (recording fee to town)**
 - **\$690 payment due by May 31 for owners who wish to retain their float weeks**
 - **Bills and Deed Back Form to be mailed by April 30**

Actions Taken: Proposition 30 In Implementation

- **Impacts:**
 - **Flexibility to increase available weeks with demand**
 - Focus on covering variable costs
 - Potential for additional income over time
 - **Improved marketability of float weeks**
 - Lower maintenance fee more accurately reflects value
 - Amnesty allows weeks to become available to paying owners
 - Potential for additional income over time
 - **Improved 2016 cash flow**
 - Collect 2017 float week fees in 2016 to allow for exchanges, etc.

In Process: Sales & Marketing Program

- **Leverage VRI's experience to get shares to paying owners**
- **Approaches include**
 - **Working with a Sales & Marketing firm specializing in timeshares**
 - **Contracting with a Vacation Club**
 - **Joining Interval International's or RCI's Points Program**
- **Key to decreasing "bad debt" and improving owner base**

In Process: Reserve Study and Plan

- **Independent specialist to perform Reserve Study**
 - **Estimate useful lives and replacement costs of all furniture, fixtures, equipment, and facilities**
 - **Plan provides timetable and funding**
- **Annual assessment includes operating budget AND reserves**
- **Eliminate need for Special Assessments**
- **Provide long-term plan for resort**

In Process: Pool

- **Pool to be evaluated in the context of the Sales & Marketing Program**
 - **Impact on owner retention and recruitment**
 - e.g. potential savings if improve payment rate from 92% to 95%
 - **Impact on float weeks**
 - e.g. potential savings if a pool allows NH to be open for 31 or 32 weeks with paying owners
- **If pool makes sense, various financing options will be explored**
 - **Loan: spread costs over +/- 10 years, no up-front cost**
 - **Assessment: one-and-done**
- **On-going costs will be evaluated**
 - **Variable costs (heat, chemicals, etc.); AND**
 - **Reserve/Maintenance costs**

Other Items Under Discussion

- **Collaboration with Island Manor?**
 - Both resorts managed by VRI
 - Potential for operational savings?
 - Most likely informal at first

- **Solar Panels?**
 - Potential to reduce operating costs
 - Wind farm impact on Island electricity costs?
 - Done in conjunction with full reserve/maintenance plan
 - Most likely will be a few years before a decision

Turnaround Plan: Summary

Mark Morrissette

Turnaround Plan Summary

- **There is a path to re-building a strong Neptune House**
- **Desire for lower fees needs to be balanced with realistic expectations**
- **A funded, sustainable plan will produce a healthy resort where owners are pleased to vacation, and units have real re-sale value**

Presentation to Meredith

Phil Totino