

MAJESTIC BEACH RESORT COMMUNITY ASSOCIATION, INC.
MINUTES OF THE BOARD OF DIRECTORS BUDGET MEETING
DECEMBER 7, 2005

Board Members Present

Jimmy Lewis, President
James Lewis, Vice President

Management Present

Andy Phillips, General Manager
Tom Sparks, VP of Association Operations
Mike Wray, Association Manager
Teresa Parker, Association Accountant
Patti Hitt, Accounting Assistant
Jack Vitello, Director of Safety and Security
Tony Lucero, Director of Operations

1. ***Welcome/Call to Order/Roll Call – Determination of Quorum.*** Jimmy Lewis called the meeting to order at 10:00 am. As two of the three board members were present, there was a quorum.
2. ***Proof of Due Notice.*** Mike Wray verified that the notice of the budget meeting and the agenda were mailed to the membership and posted on the property as required.
3. ***Open Forum.***
 - a. The directors, the members of the management team, and the owners introduced themselves.
 - b. Mr. Bill McBroom (#1711) asked for clarification on how the tower one and community association budgets related to each other. Teresa Parker explained that the community association budget is actually included in the tower one budget under the community property line item. The difference between the amount of the tower one community property line item and the community association budget is the portion that tower two will pay when it comes on line next year.
 - c. Mr. Randy Poe (#2107) stated that he is a full-time resident and complimented Jimmy Lewis on developing such a beautiful property. He also complimented the management staff and said they had always been very responsive and respectful toward his family. He said that he did not mind paying increased assessments as long as they translated into the property keeping pace with the competition. Jimmy Lewis stated that the current budget was developed over three years ago, and things such as utilities had increased exponentially. Additionally, some items were added or increased that were not anticipated in the original budget. For example a lot more security is required because of the size of the property and its busy Front Beach Road setting, and the board felt the budgeted increase was warranted. Mr. Poe agreed. Mr. Lewis said that an Owner Services department had been added for the benefit of the owners to serve as their liaison, and was not previously budgeted for. Also, the insurance that is now in place precipitated a large portion of the overall increase. He said that he had been developing for 15 years and the numbers in the original budget were good numbers and they were based on actual costs at other properties at that time. However, the Majestic turned out to be a much larger project than originally anticipated. At the time it was much larger than most other projects in the Florida

Panhandle, so when that original budget was conceived some of today's costs were not anticipated or included. For example, cable TV is included in the new budget but it was not in the original budget because cable was going to be billed to the homeowners separately. In light of all of the changes, he said it was no surprise that there was a significant increase from the original budget. Since the developer had to guarantee the budget for a certain time, he said that he had to pay many of the shortfalls himself.

Mr. Poe then asked how the rental and commercial areas are maintained. Jimmy Lewis stated that they pay assessments based on the exact same square footage formula that the condominium parcels pay. The commercial and rental spaces actually pay their own way, the owners do not pay anything toward them.

Mr. Lewis explained that until the second tower comes on line to contribute toward the overall budget, tower one is paying 100 percent of the costs, however, tower one receives 100 percent of the benefits. Once tower two comes on line it will contribute a significant share. He went on to say that that does not necessarily mean that assessments will go down next year, because insurance will be going up substantially. Andy Phillips stated that tower two's portion of the overall budget is locked into the original budget in the documents, just as tower one's has been in 2005, so it will be 2007 before tower two will carry its full load of actual expenses. Jimmy Lewis added that 100 percent of what is paid in assessments is what it actually takes to operate the property. That money does not go toward anything else and does not end up in anyone else's pocket.

Andy Phillips explained that the management company is responsible for multiple components of the property. One component is the rental operation, which is completely independent of the association management function. The assessments that owners pay go directly toward operating and maintaining only their property. The rental side pays its own maintenance and housekeeping. The expenses associated with the commercial operations, such as the front desk, the market, the pool bar, the health club, etc., are paid in full by the management company. The owners are not assessed for, nor do they pay anything toward those functions. He also stated that labor costs have gone up in the budget because it now costs the management company significantly more to recruit qualified staff to maintain the property.

Mr. Lewis went on to say that he spent a great deal of time pondering and interviewing management companies prior to selecting one. He said that Edgewater was the best he had found, far and away, by light years, and the Majestic was lucky to have such a professionally managed company running the resort. He said that every other company he had interviewed planned to approach the management in the same way they would a small 30-unit building in Destin. He said that because the Majestic is such a huge project, it will require everything included in the new budget to keep it running or it will end up substandard.

d. Mr. Tommy Johnson (#1303) stated that he had come in several times late at night, and he could not enter through the glass doors on the third floor of the Activities Building using his card key in the card reader. Jimmy Lewis stated that the doors could not be magnetized until a part, which has been on order for three months, is replaced in the fire control system, and he promised to pursue the issue.

Mr. Johnson stated that he was in the insurance business and asked if the association's insurance policies were bid out, and Jimmy Lewis stated that they are. Rather than going to multiple agents for multiple bids, an agent is selected and that agent goes out for multiple bids. By pure coincidence the insurance agency that Mr. Lewis has been using for years is the same agency that the management company uses, which he said has made it easier all around. He stated that the insurance policies themselves would be put out for bid, but not necessarily the agency. Mr. Johnson volunteered his expertise in the insurance field to the board when it comes time again to evaluate new policies, and Jimmy Lewis thanked him for the offer.

Mr. Poe asked if there were any reserve funds for insurance deductibles, and Jimmy Lewis said there were not because it was a new property and reserves had not been funded.

Jimmy Lewis added that in previous projects he had been able to buy insurance for less than the full value of the building, and that is because of the way the buildings are constructed. He said if another Hurricane Camille or Katrina were to strike the Majestic, the building would not suffer a total loss. Although a major hurricane would undoubtedly cause serious damage, the building itself would not fall down. His original budget numbers were based on \$10 million flood coverage, and that is the amount of insurance he bought last spring. He later discovered that even though it had never been a problem in the past, units could not be closed unless the flood coverage was increased to almost \$40 million, which resulted in over \$100,000 in additional insurance premiums that were not in the original budget.

e. Mr. Silva (#1501) stated that the paint of the 15th floor walkway had been touched up and it was not an exact match. Jimmy Lewis assured him that it would blend in with time.

f. Mr. Johnson asked how the assessment fees were determined. Jimmy Lewis explained that it is statutory and the documents delineate exactly how many square feet are in each type of unit. The overall sum of all the various condominiums, offices, and commercial rooms equal 100 percent of the total square footage of the entire building, and each owner pays the exact same amount per square foot. All the "A" units are charged the same, all the "B" units the same, etc., but the assessment amounts for an "A" and a "B" unit would be different because the overall square footage is different. Andy Phillips noted that the commercial spaces, such as the market and front desk, pay assessments based on their square footage at the same rate the owners do.

g. Mr. Silva expressed concern that it may be harder to sell his unit now because assessments are going up. Jimmy Lewis outlined a scenario where he originally sold a studio unit for \$130,000 and the assessment was \$60 per month. That same unit is now valued at over \$300,000 and the assessments is \$100 per month, so it is pro rata. Both Jimmy Lewis and Andy Phillips assured Mr. Silva that the Majestic dues are right in line with comparable properties up and down the coast. Mr. Phillips said that when compared to other properties with similar amenities, such as a parking garage, the dues are right in line.

h. Mr. Poe brought up the point of cleaning the parking garage, and asked if the costs should not be split with the developer. Jimmy Lewis stated that the construction company is restricted to

the lower two floors of the garage, and Mike Wray said that the construction company is already responsible for the cleaning and trash removal on those two levels.

i. Jimmy Lewis said that construction of the third tower is still on the books but on hold because the market for the North side of the road is down and construction costs are up, so it does not make economic sense for him to proceed at this time. Mr. Johnson asked who owns the remaining section of the old Majestic Motel to the west of the parking garage, and if it was going to be removed. Jimmy Lewis said that it belongs to the same person that owns the Oxygen Beach Plaza. James Lewis said that if the developer owned it, it would have already been removed. Jimmy Lewis said that he will, at some point in the future, own that property but he does not at this time.

4. *Reading and Disposing of Unapproved Minutes.*

James Lewis made a motion that the minutes be accepted as written. Second was by Jimmy Lewis. The motion carried by a unanimous vote.

5. *Action Item: Ratification of 2006 Budget.*

Jimmy Lewis stated that he is comfortable with the new budget. He said he is not happy about the increase and reminded everyone that he also pays assessments, but he felt it was appropriate for the magnitude of the property and level of service expected. James Lewis made a motion that the budget be ratified. Second was by Jimmy Lewis. The motion carried by a unanimous vote.

6. *Other Business.*

a. Mr. McBroom asked how many new board members would be elected at the annual meeting on December 17, 2005. Jimmy Lewis stated that his wife, Malinda Lewis, would be resigning her seat on the developer-appointed board, and one of the five candidates running would be elected to replace her. The board will still consist of three directors until turnover. Mr. Sparks explained that when tower two participates in next year's election, board members will be elected at large rather than by individual tower.

b. Andy Phillips reminded everyone that there will be an owners reception in the Activities Building ballroom Friday evening, December 16, from 6:00 to 8:00 pm. The annual meeting will be at 10:00 am on Saturday, December 17th, followed by lunch in the ballroom at noon.

7. ***Dates of Board of Directors Meetings for 2005.*** December 17th immediately following the Annual Owners Meeting that begins at 10 am.

8. ***Adjournment.*** With there being no further business, the meeting was adjourned at 10:55 am.

Approved this 24th day of May, 2006, by a unanimous vote of the Board of Directors of the Majestic Beach Resort Community Association, Inc.

Jimmy Lewis, President

James C. Lewis, Secretary

Attachments:

1. Attendance Record
2. Ratified Budget for Tower One
3. Ratified Budget for the Community Association