

April 2021 Report from the Board: CBW Financials. For Owners' Immediate Attention

As many of us knew or suspected, since the double hurricanes hit in 2017, Cowpet Bay West Association has been struggling financially. Despite aggressive negotiation by our adjuster, our attorney, and Board members Chris Crowe and Nic Overmyer, our second insurance claim was delayed for years, requiring the association to borrow from our different accounts and take loans to cover the cost of our substantial hurricane repairs and some of our daily operations, including our insurance payments.

The new 2021 Board of Directors has spent significant time since the February elections considering how to address the financial challenges we continue to face, in large part due to those hurricanes. Our assessment included building and grounds inspections and a hard look at the CBW finances.

The most obvious financial problem we have is that our second insurance settlement (for Maria) will fall considerably short of our adjuster's estimate and our filed claim. To give everyone an idea of post-hurricane repair cost: 3.1 million for roofs (1 million of which was for deteriorated bond beams *not covered by insurance*); 230k water system repair; 180k generator repair and 115k for fuel; 160k outsourced structural repairs; 155k electrical system repair; 120k to rebuild supporting columns; etc. etc. These are just some of the highlights. To make matters worse, the cost of contractors and materials have sky-rocketed on the island since the hurricanes.

Some background: Because CBW did not have the insurance money available to do the emergency hurricane repairs, it began using our O&M, Reserve Fund and Insurance fees to pay for the repairs. This borrowing from/mixing of funds has been going on for over three years now. The Association also secured what initially was thought to be a short-term, 723k SBA loan (hoping to be paid off when the insurance monies came in). Then, when the insurance claim still wasn't settled months later, the Association was forced to secure a private loan (290k, due August 2021) because the 2019 insurance bill was due and we had used much of those funds on the continuing emergency repairs.

While we still are not at liberty to disclose final details of the Maria negotiations and settlement, what is clear is that CBW will receive approximately 525k *less* than our second hurricane damage claim. If you consider the \$1 million we had to pay "out of pocket" for the bond beam repair, and add to that all the ongoing, non-insurance damages and repairs we too often are now facing with aging buildings, you can see the problem we have. Just one recent example: in the past six weeks we've had to do repair/reinforcement on several foundations and walls in a few of our buildings at the cost of ~200k+ (see attached photos). These are obviously necessary repairs to our infrastructure, but they are expensive repairs, not part of a normal maintenance schedule.

As you might expect, receiving a settlement that is 525k less than our claim requested will not fix the financial predicament we have. Due in large part to this 525k shortfall (and, likely, underfunding our O&M for years), we have to immediately raise funds in order to right the financial ship and protect our properties and the association from possible financial failure.

Our By-laws state that the CBW Board is sanctioned to levy an assessment when there is an insurance shortfall after a disaster. Article V section 3, "Repair or Reconstruction after Fire/Casualty" reads thus: *Any cost of such repair or restoration in excess of the insurance proceeds shall constitute a "common expense." And the Board may assess owners for such a deficit.*

We had a disaster three years ago and an insurance shortfall (525k+) that has left us unable to meet our financial obligations. As authorized by our By-Laws, the Board will be instating a "common expense" assessment to get our Cowpet Bay property back on track financially. We are all owners, including those of us who serve on the Board. And as owners, we are trying to make the best decisions possible to protect all of us and all of our investments in our properties.

We anticipate that such an assessment will allow us to pay our current insurance bill (472k) which is due in total within 3-4 months. This assessment also will allow us to once again separate our different accounts (O&M, Reserve Fund, and Insurance) so we can better understand if each of these established owner fees is in fact sufficient to meet the demands of our aging infrastructure that has increasing costs for repair, updating, and insurance. This 525k "common expense" would be divided in the usual way, among all 102 condo units, by percentage, paid over 4 months.

In addition to this "common expense" assessment, the Board is investigating other options for raising funds in order to maintain Cowpet's beauty and keep it in top condition. For example, we are looking at possible strategies to collect fees from short-term renters so that renters are paying their "fair share" towards the upkeep of our infrastructure, taxed from overuse. An example of "overuse" is that our original cisterns and waste water system were built on the premise that most of the CBW units were occasional vacation homes for owners – not full-time homes, and certainly not rented short-term, 365 days a year. To meet today's lifestyle demands, we need new cisterns and a more robust gray water system which is incredibly costly. The Board also is considering tiered increases in resource use (with excess fees going to repair of both our water and electric systems) as well as annual cost-of-living increases in standard operating monthly fees. Our standard operating fees are something that the Benchmark Committee will be investigating, because it has become clear that CBW's operating fees are hundreds of dollars less per month than that of competing properties. Cowpet Bay East – a much smaller condo complex – is in fact charging a total of between \$200-400 more per month (depending on condo size) for its O&M, Reserve, and Insurance fees. To her credit, Holly has helped keep our fees down for years by doing less outsourced hiring than CBE – essentially operating on less funding than the much smaller CBE – but even these efforts are not enough to keep us afloat financially.

The truth is, those of us who live here or rent our units at Cowpet West are operating differently than we did 30, 20 or even 10 years ago, and our infrastructure – our water, our electric, our plumbing system, our buildings and driveways and walkways -- are all groaning under the pressure. We need to understand this, and we need to do what is necessary to protect our community and protect our individual assets. Just recently, we had to shore up several buildings whose rebar and concrete was beginning to degrade. This degradation is primarily due to the age of the buildings, but also may be related to the recent strong earthquakes in our area. We fully anticipate that damage like this will continue to surface in the future, and we need to be financially prepared for it. We need to be able to plan forward for the upkeep and improvement of our shared property, which admittedly is aging. Finding new streams of funding for property repair and beautification will allow us to protect our personal investments while maintaining Cowpet Bay West's status as a premier property in St. Thomas.

We are happy to report that our property values continue to climb, but we have to do our part as owners to make sure this trend continues by keeping our property structurally sound as well as attractive. And to do so, we must address our financial shortfalls, so we are not running from crisis to crisis trying to figure out how to pay for needed repairs or how to pay our insurance bill or workers compensation.

As your elected Board, we want to look out for everyone's investment in what we believe is one of the island's finest properties. We firmly believe that instating a "common assessment" as per our By-laws is the best, immediate solution to the crisis we currently face. Details of this assessment, including a payment schedule and cost breakdowns by condo size, will be sent to all owners soon, under separate cover.

Respectfully,

Chris Crowe, Bob Daleo, Bill Hanson, Marguerite Hefferon, Ehren Henderson, Bill Leitch, and Jennifer Planeta
The 2021 Cowpet Bay West Board

PICTURES OF DAMAGED FOUNDATION WALLS AND "CEILINGS" UNDER THE BUILDINGS, AS WELL AS EXTERIOR DEGRADATION.

