

*Board of Directors
Edgewater Isle South Owners' Association
c/o Pargett Association Management
P.O. Box 871
Belmont, CA 94002*

September 11, 2007

Fellow Members,

Many of you may recently have received a letter, titled "Scandalous Board," from an Edgewater Isle South member. The member is unhappy with our decision to continue to maintain earthquake insurance for our homes. The member further disagrees with the board's efforts to improve our reserves and to properly identify and address important maintenance needs. The member also asserts that the board is operating in secrecy and does not consider the members' concerns. We disagree with her contentions.

For most of us, our homes are the single largest asset we have, and the value of our homes and having a reasonable assurance that we can rebuild them in the wake of a major earthquake are important financial protections. In the event of a catastrophic loss, our collective ability to recover and to preserve our investment in our homes is greatly affected by how well we plan now for such an event. This means emergency preparedness, but it also means financial preparedness. It is the board's judgment that, while the current earthquake insurance premium is high, divided among us all it is still an amount that is competitive in the earthquake insurance market and favorable when compared with the premium that others, particularly owners of single family homes, face in insuring their property against earthquake loss. We believe it is our collective economic power as condominium owners that allows us to obtain coverage at this per-unit price.

Every year the board studies and evaluates the benefit of maintaining the policy of earthquake insurance and balances it against the cost to all of us and whether, as a whole, we can still collectively afford the coverage. We also study whether we can afford not to. These are risk evaluations, in which we look to our insurance expert to guide us. We ask tough questions about the caliber of our carrier, examine available choices with respect to deductibles, insurable limits, per-building coverage and other criteria, in making our decision. We do not make the decision lightly, and we do not guarantee that we will continue to decide that the policy for the price is prudent. But when we do make the decision that maintaining the coverage for all of us is prudent, we move forward within the financial limits set for us. We believe doing so is the responsible thing to do.

This year the board notified all members about a discussion it was going to facilitate at the Annual Meeting on the subjects of rising assessments, new reserve funding legal requirements, and earthquake insurance. The Association had legal and insurance experts attend the Annual Meeting, to explain the new laws and answer questions of members. The members who attended learned important information about risk-sharing, proper reserve funding and how we can all protect our investments in our homes. After hearing and participating in the discussions, the consensus of the attending members was that the Association should maintain earthquake insurance if at all possible and that the Association is fulfilling its duties to its members in setting appropriate assessment levels and reserve funding.

We respect the differing viewpoints of all of our members and know that everyone's individual financial situations vary. Contrary to the member's letter (in which concerns are expressed in an unacceptable and even possibly actionable manner), we do understand that assessments can be difficult to pay. Directors have to pay assessments too. What we strive to do is to meet our fiduciary duty to all members by budgeting in a realistic fashion and not keeping our assessments artificially low at the expense of our current and future needs. We need to maintain our buildings and to protect all of our investments in our homes, and that comes with a price tag.

Our manager works hard to bring information to the board about the realistic cost of maintaining, repairing and replacing building components. That may be unpopular with some, but he is working in the best interests of all of us. From there, the board makes and is solely responsible for decisions that affect assessments and maintenance. Too many associations across our state have failed siding, defective siding products, uncaulked and unpainted buildings, and reserve studies that should but don't include everything that will wear out in the next 30 years. Some associations depend on large special assessments as their financial plan. Some associations don't prepare for the true costs of siding replacement and water penetrating through building skins. Numerous articles have been published in the ECHO Journal that illustrate our concern.

We don't want to be one of those unprepared communities. The board is taking prudent strides to prolong the life of our siding and to begin to build a meaningful fund for replacement. These things also come with a price tag.

Those who try to compare the assessments of various communities have to be both knowledgeable and careful. It is very difficult to contrast one community, its amenities, and the things that are important to its residents to fund, with any other community. All are different – whether it be in the form of services that residents expect, the age of buildings, the type of construction, the quality of a maintenance program, the risk-sharing protections in place and, of course, future financial planning. An example close to home of how easy it can be to misinterpret dues structures would be in trying to contrast our own assessments with others. Our current assessments include \$110.72 per month in Master and Commercial Master dues, an amount that other communities might factor completely differently, or perhaps not at all. With respect to special assessments, we are all aware that last year's assessment was unexpected and was needed to maintain our earthquake insurance without draining the reserves that we're trying so hard to build. This year, the full cost of earthquake insurance is included in our monthly dues, and no special assessment is needed to cover these costs.

The Board of Directors generally meets on the fourth Thursday of every month at 7:00 PM at 3 Waters Park Drive in San Mateo, in the Second Floor Conference Room. Confirmation of the meeting schedule and directions are available from our community manager Nick Pargett by calling 650-787-7521. Members are always welcome to attend our meetings, and we set aside time at every meeting to hear member comments, questions, and suggestions. We urge all members to get involved and to stay informed.

We appreciate your continuing support of our efforts on behalf of our Association and all owners.

Sincerely,

Board of Directors
Edgewater Isle South Homeowners Association